

FINANCIAL INSTITUTIONS INC

Form 10-Q

November 06, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**▶ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED September 30, 2008**

**Commission File Number 0-26481**

(Exact Name of Registrant as specified in its charter)

NEW YORK

16-0816610

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification Number)

220 Liberty Street Warsaw, NY

14569

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number Including Area Code:

(585) 786-1100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS

OUTSTANDING AS OF OCTOBER 31, 2008

Common Stock, \$0.01 par value

10,798,019 shares

**FINANCIAL INSTITUTIONS, INC.**  
**Form 10-Q**  
**For the Quarterly Period Ended September 30, 2008**  
**TABLE OF CONTENTS**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>ITEM 1. Financial Statements</u>	
<u>Consolidated Statements of Financial Condition (Unaudited)</u> <u>at September 30, 2008 and December 31, 2007</u>	3
<u>Consolidated Statements of Operations (Unaudited)</u> <u>Three and nine months ended September 30, 2008 and 2007</u>	4
<u>Consolidated Statement of Changes in Shareholders' Equity and Comprehensive Income (Unaudited)</u> <u>Nine months ended September 30, 2008</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited)</u> <u>Nine months ended September 30, 2008 and 2007</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>ITEM 4. Controls and Procedures</u>	35
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>ITEM 1. Legal Proceedings</u>	36
<u>ITEM 1A. Risk Factors</u>	36
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>ITEM 6. Exhibits</u>	37
<u>Signatures</u>	39
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	



**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES  
Consolidated Statements of Financial Condition (Unaudited)**

<i>(Dollars in thousands, except share and per share data)</i>	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 54,105	\$ 45,165
Federal funds sold and interest-bearing deposits in other banks	22,599	1,508
Total cash and cash equivalents	76,704	46,673
Securities available for sale, at fair value	607,357	695,241
Securities held to maturity, at amortized cost (fair value of \$64,346 and \$59,902, respectively)	64,434	59,479
Loans held for sale	1,008	906
Loans	1,078,123	964,173
Less: Allowance for loan losses	17,420	15,521
Loans, net	1,060,703	948,652
Premises and equipment, net	35,411	34,157
Goodwill	37,369	37,369
Company owned life insurance	23,352	3,017
Other assets	39,481	32,382
Total assets	\$ 1,945,819	\$ 1,857,876
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest-bearing demand	\$ 293,027	\$ 286,362
Interest-bearing demand	376,098	335,314
Savings and money market	383,456	346,639
Certificates of deposit	607,833	607,656
Total deposits	1,660,414	1,575,971
Short-term borrowings	47,209	25,643
Long-term borrowings	50,773	25,865
Junior subordinated debentures issued to unconsolidated subsidiary trust	16,702	16,702
Other liabilities	17,951	18,373
Total liabilities	1,793,049	1,662,554

Shareholders' equity:

3% cumulative preferred stock, \$100 par value, 10,000 authorized shares, 1,533 and 1,586 shares issued and outstanding	153	159
8.48% cumulative preferred stock, \$100 par value, 200,000 authorized shares, 174,223 shares issued and outstanding	17,422	17,422
Common stock, \$0.01 par value, 50,000,000 authorized shares, 11,348,122 shares issued	113	113
Additional paid-in capital	24,298	24,778
Retained earnings	129,534	158,744
Accumulated other comprehensive (loss) income	(8,650)	667
Treasury stock, at cost - 541,659 and 336,971 shares, respectively	(10,100)	(6,561)
 Total shareholders' equity	 152,770	 195,322
 Total liabilities and shareholders' equity	 \$ 1,945,819	 \$ 1,857,876

See accompanying notes to the consolidated financial statements.

**Table of Contents**

**FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations (Unaudited)**

<i>(Dollars in thousands, except per share amounts)</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Interest income:				
Interest and fees on loans	\$ 17,018	\$ 17,571	\$ 50,146	\$ 51,130
Interest and dividends on investment securities	7,472	8,814	23,648	26,192
Other interest income	68	168	572	1,494
<b>Total interest income</b>	<b>24,558</b>	<b>26,553</b>	<b>74,366</b>	<b>78,816</b>
Interest expense:				
Deposits	6,538	10,428	23,193	32,528
Short-term borrowings	287	360	571	682
Long-term borrowings	555	472	1,288	1,441
Junior subordinated debentures	432	432	1,296	1,296
<b>Total interest expense</b>	<b>7,812</b>	<b>11,692</b>	<b>26,348</b>	<b>35,947</b>
Net interest income	16,746	14,861	48,018	42,869
Provision (credit) for loan losses	1,891	(82)	3,965	(235)
Net interest income after provision (credit) for loan losses	14,855	14,943	44,053	43,104
Noninterest (loss) income:				
Service charges on deposits	2,794	2,778	7,812	8,114
ATM and debit card	852	735	2,460	2,079
Broker-dealer fees and commissions	363	323	1,223	1,053
Loan servicing	112	259	530	707
Company owned life insurance	223	1,090	269	1,139
Net gain on sale of loans held for sale	48	313	304	589
Net gain on sale of other assets	102	59	254	160
Net gain on investment securities	12	67	232	118
Impairment charges on investment securities	(34,554)		(38,345)	
Other	700	710	1,589	1,719
<b>Total noninterest (loss) income</b>	<b>(29,348)</b>	<b>6,334</b>	<b>(23,672)</b>	<b>15,678</b>
Noninterest expense:				

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Salaries and employee benefits	7,021	8,574	23,626	24,935
Occupancy and equipment	2,642	2,422	7,789	7,321
Computer and data processing	603	547	1,764	1,593
Professional services	467	476	1,504	1,548
Supplies and postage	475	443	1,353	1,283
Advertising and promotions	472	322	905	1,006
Other	1,729	1,825	5,126	5,200
Total noninterest expense	13,409	14,609	42,067	42,886
(Loss) income before income taxes	(27,902)	6,668	(21,686)	15,896
Income tax expense	524	1,414	1,330	3,585
Net (loss) income	\$ (28,426)	\$ 5,254	\$ (23,016)	\$ 12,311
(Loss) earnings per common share (Note 3):				
Basic	\$ (2.68)	\$ 0.44	\$ (2.22)	\$ 1.00
Diluted	\$ (2.68)	\$ 0.44	\$ (2.22)	\$ 1.00

See accompanying notes to the consolidated financial statements.



**Table of Contents**

**FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Shareholders**  
**Equity and Comprehensive Income (Unaudited)**

<i>(Dollars in thousands, except per share amounts)</i>	3%	8.48%	Additional	Accumulated	Other	Total		
	Preferred	Preferred	Common	Paid-in	Retained	Comprehensive	Treasury	Shareholders
	Stock	Stock	Stock	Capital	Earnings	Income	Stock	Equity
						(Loss)		
Balance at January 1, 2008	\$ 159	\$ 17,422	\$ 113	\$ 24,778	\$ 158,744	\$ 667	\$ (6,561)	\$ 195,322
Purchase 264,417 shares of common stock							(4,695)	(4,695)
Purchase 53 shares of 3% preferred stock	(6)			3				(3)
Issue 51,500 shares of common stock restricted stock awards				(998)			998	
Issue 2,317 shares of common stock exercised stock options, net of tax				(12)			44	32
Issue 5,912 shares of common stock directors retainer				(2)			114	112
Amortization of unvested stock-based compensation				529				529
Cumulative effect of adoption of EITF 06-04					(284)			(284)
Comprehensive income:								
Net loss					(23,016)			(23,016)
Net unrealized holding losses on securities available for sale, net of tax						(32,666)		(32,666)
Reclassification of impairment charges and realized gains on investment securities included in net loss, net of tax						23,369		23,369
Defined benefit pension plan, net of tax						6		6
Postretirement benefit plan, net of tax						(26)		(26)
Other comprehensive loss								(9,317)
Total comprehensive loss								(32,333)

Cash dividends declared:

3% Preferred \$2.25 per share	(4)	(4)
8.48% Preferred \$6.36 per share	(1,108)	(1,108)
Common \$0.44 per share	(4,798)	(4,798)

Balance at September 30,

2008	\$ 153	\$ 17,422	\$ 113	\$ 24,298	\$ 129,534	\$ (8,650)	\$ (10,100)	\$ 152,770
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See accompanying notes to the consolidated financial statements.

**Table of Contents**

**FINANCIAL INSTITUTIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Unaudited)**

<i>(Dollars in thousands)</i>	<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net (loss) income	\$ (23,016)	\$ 12,311
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,922	2,958
Net amortization (accretion) of premiums and discounts on investment securities	374	(150)
Provision (credit) for loan losses	3,965	(235)
Amortization of unvested stock-based compensation	529	785
Deferred income tax (benefit) expense	(1,865)	655
Proceeds from sale of loans held for sale	25,401	35,999
Originations of loans held for sale	(25,199)	(34,525)
Net gain on investment securities	(232)	(118)
Impairment charge on investment securities	38,345	
Net gain on sale of loans held for sale	(304)	(589)
Net gain on sale and disposal of other assets	(254)	(160)
Increase in other assets	(206)	(721)
Decrease in other liabilities	(2,727)	(4,145)
Net cash provided by operating activities	17,733	12,065
Cash flows from investing activities:		
Purchase of investment securities:		
Available for sale	(287,678)	(255,497)
Held to maturity	(44,065)	(40,206)
Proceeds from principal payments, maturities and calls on investment securities:		
Available for sale	270,367	222,096
Held to maturity	40,924	26,463
Proceeds from sale of securities available for sale	51,545	31,400
Net loan originations	(116,772)	(26,317)
Purchase of company owned life insurance	(20,000)	
Proceeds from sales of other assets	1,395	1,010
Purchase of premises and equipment	(4,058)	(2,884)
Net cash used in investing activities	(108,342)	(43,935)
Cash flows from financing activities:		
Net increase (decrease) in deposits	84,443	(1,434)
Net increase in short-term borrowings	21,566	1,063
Proceeds from long-term borrowings	30,000	

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Repayment of long-term borrowings	(5,092)	(9,042)
Purchase of preferred and common shares	(4,698)	(5,888)
Issuance of common shares	112	105
Stock options exercised	32	212
Dividends paid	(5,723)	(4,497)
Net cash provided by (used in) financing activities	120,640	(19,481)