

COMMUNITY BANK SYSTEM INC
Form 10-Q
May 08, 2007

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 March 31, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-13695

COMMUNITY BANK SYSTEM, INC.
(Exact name of registrant as specified in its charter)

Delaware

16-1213679

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

5790 Widewaters Parkway, DeWitt, New York

13214-1883

(Address of principal executive offices)

(Zip Code)

(315) 445-2282

(Registrant's telephone number, including area code)

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is 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.

30,090,792 shares of Common Stock, \$1.00 par value, were outstanding on April 30, 2007.

TABLE OF CONTENTS

	<u>Page</u>
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements (Unaudited)</u>	
<u>Consolidated Statements of Condition</u> <u>March 31, 2007 and December 31, 2006</u>	3
<u>Consolidated Statements of Income</u> <u>Three months ended March 31, 2007 and 2006</u>	4
<u>Consolidated Statement of Changes in Shareholders' Equity</u> <u>Three months ended March 31, 2007</u>	5
<u>Consolidated Statements of Comprehensive Income</u> <u>Three months ended March 31, 2007 and 2006</u>	6
<u>Consolidated Statements of Cash Flows</u> <u>Three months ended March 31, 2007 and 2006</u>	7
<u>Notes to the Consolidated Financial Statements</u> <u>March 31, 2007</u>	8
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosure about Market Risk</u>	25
<u>Item 4.</u>	
<u>Controls and Procedures</u>	26
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	26
<u>Item 1A.</u>	
<u>Risk Factors</u>	26
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	26
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Securities Holders</u>	26
<u>Item 5.</u>	
<u>Other Information</u>	26
<u>Item 6.</u>	
<u>Exhibits</u>	27

Part 1. Financial Information
Item 1. Financial Statements

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF CONDITION
(In Thousands, Except Share Data)

	(Unaudited) March 31, 2007	December 31, 2006
Cash and cash equivalents	\$ 224,917	\$ 232,032
Available-for-sale investment securities, at fair value	1,179,041	1,083,412
Held-to-maturity investment securities (fair value of \$135,915 and \$142,695, respectively)	138,513	145,859
Total investment securities	1,317,554	1,229,271
Loans	2,682,234	2,701,558
Allowance for loan losses	(35,891)	(36,313)
Net loans	2,646,343	2,665,245
Core deposit intangibles, net	23,219	24,665
Goodwill	220,268	220,290
Other intangibles, net	1,111	1,181
Intangible assets, net	244,598	246,136
Premises and equipment, net	66,211	66,199
Accrued interest receivable	25,727	26,797
Other assets	33,538	32,117
Total assets	\$ 4,558,888	\$ 4,497,797
Liabilities:		
Noninterest bearing deposits	\$ 592,954	\$ 578,951
Interest bearing deposits	2,685,514	2,589,348
Total deposits	3,278,468	3,168,299
Borrowings	626,765	647,481
Subordinated debt held by unconsolidated subsidiary trusts	127,099	158,014
Accrued interest and other liabilities	59,659	62,475
Total liabilities	4,091,991	4,036,269

Commitment and contingencies (See Note I)

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Shareholders' equity:			
Preferred stock \$1.00 par value, 500,000 shares authorized, 0 shares issued			
Common stock, \$1.00 par value, 50,000,000 shares authorized; 32,910,233 and 32,773,320 shares issued in 2007 and 2006, respectively			
		32,910	32,773
Additional paid-in capital		205,349	203,197
Retained earnings		295,500	291,871
Accumulated other comprehensive income		(3,994)	(4,697)
Treasury stock, at cost (2,814,461 and 2,753,161 shares, respectively)		(62,868)	(61,616)
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Total shareholders' equity		466,897	461,528
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Total liabilities and shareholders' equity		\$ 4,558,888	\$ 4,497,797
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The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In Thousands, Except Per-Share Data)

	Three Months Ended March 31,	
	2007	2006
Interest income:		
Interest and fees on loans	\$ 44,935	\$ 38,328
Interest and dividends on taxable investments	11,103	10,535
Interest and dividends on nontaxable investments	5,520	5,795
Total interest income	61,558	54,658
Interest expense:		
Interest on deposits	18,120	13,021
Interest on short-term borrowings	1,637	1,458
Interest on subordinated debt held by unconsolidated subsidiary trusts	2,566	1,815
Interest on long-term borrowings	5,868	4,679
Total interest expense	28,191	20,973
Net interest income	33,367	33,685
Less: provision for loan losses	200	2,150
Net interest income after provision for loan losses	33,167	31,535
Noninterest income:		
Deposit service fees	6,977	6,609
Other banking services	670	476
Benefit plan administration, consulting and actuarial fees	3,972	3,381
Trust, investment and asset management fees	1,860	2,050
Total noninterest income	13,479	12,516
Operating expenses:		
Salaries and employee benefits	18,286	16,782
Occupancy and equipment	4,666	4,759
Data processing and communications	3,625	3,231
Amortization of intangible assets	1,515	1,493
Legal and professional fees	1,187	1,283
Office supplies and postage	1,046	976
Business development and marketing	890	730
Other	2,704	2,181
Total operating expenses	33,919	31,435
Income before income taxes	12,727	12,616

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Income taxes		3,071		3,154
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Net income	\$	9,656	\$	9,462
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Basic earnings per share	\$	0.32	\$	0.32
Diluted earnings per share	\$	0.32	\$	0.31
Dividends declared per share	\$	0.20	\$	0.19

The accompanying notes are an integral part of the consolidated financial statements.

COMMUNITY BANK SYSTEM, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)
Three Months Ended March 31, 2007
(In Thousands, Except Share Data)

Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income
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