

CITY HOLDING CO  
Form 10-Q  
November 05, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For The Quarterly Period Ended September 30, 2008

OR

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 0-11733

CITY HOLDING COMPANY  
(Exact name of registrant as specified in its charter)

West Virginia  
(State or other jurisdiction of incorporation or  
organization)

55-0619957  
(I.R.S. Employer Identification No.)

25 Gatewater Road  
Charleston, West Virginia  
(Address of principal executive offices)

25313  
(Zip Code)

(304) 769-1100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) 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

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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 practical date.

Common stock, \$2.50 Par Value – 16,182,644 shares as of November 4, 2008.

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## FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including statements in Management's Discussion and Analysis of Financial Condition and Result of Operations are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such information involves risks and uncertainties that could result in the Company's actual results differing from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to: (1) the Company may incur additional provision for loan losses due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (2) the Company may incur increased charge-offs in the future; (3) the Company may experience increases in the default rates or decreased prepayments on previously securitized loans that would result in impairment losses or lower the yield on such loans; (4) the Company may continue to benefit from strong recovery efforts on previously securitized loans resulting in improved yields on this asset; (5) the Company could have adverse legal actions of a material nature; (6) the Company may face competitive loss of customers; (7) the Company may be unable to manage its expense levels; (8) the Company may have difficulty retaining key employees; (9) changes in the interest rate environment may have results on the Company's operations materially different from those anticipated by the Company's market risk management functions; (10) changes in general economic conditions and increased competition could adversely affect the Company's operating results; (11) changes in other regulations and government policies affecting bank holding companies and their subsidiaries, including changes in monetary policies, could negatively impact the Company's operating results; (12) the Company may experience difficulties growing loan and deposit balances; (13) the current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations; and (14) the United States government's plan to purchase large amounts of illiquid, mortgage-backed and other securities from financial institutions may not be effective and/or it may not be available to us. Forward-looking statements made herein reflect management's expectations as of the date such statements are made. Such information is provided to assist stockholders and potential investors in understanding current and anticipated financial operations of the Company and is included pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date such statements are made.

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## City Holding Company and Subsidiaries

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## PART I, ITEM 1 – FINANCIAL STATEMENTS

## Consolidated Balance Sheets

## City Holding Company and Subsidiaries

(in thousands)

	September 30 2008 (Unaudited)	December 31 2007 (Note A)
<b>Assets</b>		
Cash and due from banks	\$ 52,206	\$ 64,726
Interest-bearing deposits in depository institutions	4,045	9,792
Cash and Cash Equivalents	56,251	74,518
Investment securities available for sale, at fair value	345,982	382,098
Investment securities held-to-maturity, at amortized cost (approximate fair value at September 30, 2008 and December 31, 2007 - \$22,997 and \$35,198, respectively)	33,033	34,918
Total Investment Securities	379,015	417,016
Gross loans	1,777,731	1,767,021
Allowance for loan losses	(18,879)	(17,581)
Net Loans	1,758,852	1,749,440
Bank owned life insurance	69,660	64,467
Premises and equipment	59,574	54,635
Accrued interest receivable	9,733	11,254
Net deferred tax asset	41,173	20,633
Intangible assets	57,600	58,238
Other assets	33,707	32,566
Total Assets	\$ 2,465,565	\$ 2,482,767
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 316,205	\$ 314,231
Interest-bearing:		
Demand deposits	404,593	397,510
Savings deposits	359,644	350,607
Time deposits	912,184	927,733
Total Deposits	1,992,626	1,990,081
Short-term borrowings	140,726	161,916
Long-term debt	21,075	4,973
Other liabilities	26,226	31,803
Total Liabilities	2,180,653	2,188,773
<b>Shareholders' Equity</b>		
Preferred stock, par value \$25 per share: 500,000 shares authorized; none issued	-	-
Common stock, par value \$2.50 per share: 50,000,000 shares authorized; 18,499,282 shares issued at September 30, 2008 and December 31, 2007, less 2,316,638 and 2,292,357 shares in treasury, respectively	46,249	46,249
Capital surplus	102,831	103,390

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Retained earnings	231,789	224,386
Cost of common stock in treasury	(81,480)	(80,664)
Accumulated other comprehensive (loss) income:		
Unrealized loss on securities available-for-sale	(20,631)	(1,783)
Unrealized gain on derivative instruments	8,128	4,390
Underfunded pension liability	(1,974)	(1,974)
Total Accumulated Other Comprehensive (Loss) Income	(14,477)	633
Total Shareholders' Equity	284,912	293,994
Total Liabilities and Shareholders' Equity	\$ 2,465,565	\$ 2,482,767

See notes to consolidated financial statements.

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Consolidated Statements of Income (Unaudited)  
 City Holding Company and Subsidiaries  
 (in thousands, except earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
<b>Interest Income</b>				
Interest and fees on loans	\$ 30,254	\$ 32,721	\$ 91,662	\$ 96,131
Interest on investment securities:				
Taxable	5,850	6,024	18,034	19,709
Tax-exempt	371	415	1,151	1,270
Interest on deposits in depository institutions	47	171	163	401
Interest on federal funds sold	-	266	-	815
<b>Total Interest Income</b>	<b>36,522</b>	<b>39,597</b>	<b>111,010</b>	<b>118,326</b>
<b>Interest Expense</b>				
Interest on deposits	9,446	13,190	31,980	38,978
Interest on short-term borrowings	478	1,758	2,286	4,965
Interest on long-term debt	317	426	1,070	1,383
<b>Total Interest Expense</b>	<b>10,241</b>	<b>15,374</b>	<b>35,336</b>	<b>45,326</b>
<b>Net Interest Income</b>	<b>26,281</b>	<b>24,223</b>	<b>75,674</b>	<b>73,000</b>
Provision for loan losses	2,350	1,200	5,083	3,700
<b>Net Interest Income After Provision for Loan Losses</b>	<b>23,931</b>	<b>23,023</b>	<b>70,591</b>	<b>69,300</b>
<b>Non-interest Income</b>				
Investment securities (losses) gains	(27,467)	(1)	(27,465)	45
Service charges	11,993	11,192	34,536	32,681
Insurance commissions	1,025	1,127	3,231	2,971
Trust and investment management fee income	640	523	1,721	1,529
Bank owned life insurance	767	596	2,193	1,877
Gain on sale of retail credit card merchant agreements	-	-	-	1,500
VISA IPO Gain	-	-	3,289	-
Other income	284	377	1,250	1,252
<b>Total Non-interest Income</b>	<b>(12,758)</b>	<b>13,814</b>	<b>18,755</b>	<b>41,855</b>
<b>Non-interest Expense</b>				
Salaries and employee benefits	9,538	9,307	28,418	27,275
Occupancy and equipment	1,800	1,600	5,098	4,762
Depreciation	1,110	1,160	3,330	3,339
Professional fees	435	416	1,229	1,204
Postage, delivery, and statement mailings	636	641	1,908	1,988
Advertising	821	801	2,081	2,533
Telecommunications	496	438	1,354	1,352
Bankcard expenses	717	623	1,978	1,737
Insurance and regulatory	354	364	1,025	1,132
Office supplies	527	472	1,488	1,369
Reposessed asset losses (gains), net of expenses	314	(47)	437	(52)

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Loss on early extinguishment of debt	-	-	1,208	-
Other expenses	2,498	2,256	8,352	6,514
Total Non-interest Expense	19,246	18,031	57,906	53,153
(Loss) Income Before Income Taxes	(8,073)	18,806	31,440	58,002
Income tax (benefit) expense	(5,516)	6,092	7,580	19,735
Net (Loss) Income	(2,557)	12,714	23,860	38,267
Average common shares outstanding:				
Basic (loss) earnings per common share	\$ (0.16)	\$ 0.76	\$ 1.48	\$ 2.24
Diluted (loss) earnings per common share	\$ (0.16)	\$ 0.76	\$ 1.47	\$ 2.24
Dividends declared per common share	\$ 0.34	\$ 0.31	\$ 1.02	\$ 0.93
Average common shares outstanding:				
Basic	16,142	16,714	16,130	17,057
Diluted	16,195	16,767	16,189	17,116

See notes to consolidated financial statements.



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## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

City Holding Company and Subsidiaries

Nine Months Ended September 30, 2008 and 2007

(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balances at December 31, 2006	\$ 46,249	\$ 104,043	\$ 194,213	\$ (33,669)	\$ (5,529)	\$ 305,307
Comprehensive income:						
Cumulative effect of adopting FIN 48			(125)			(125)
Net income			38,267			38,267
Other comprehensive gains, net of deferred income taxes of \$755:						
Unrealized gains on available-for-sale securities of \$138, net of taxes					83	83
Net unrealized gain on interest rate floors of \$1,750, net of taxes					1,050	1,050
Total comprehensive income						39,400
Cash dividends declared (\$0.93 per share)			(15,703)			(15,703)
Issuance of stock awards, net		(430)		802		372
Exercise of 7,300 stock options		(141)		295		154
Excess tax benefit on stock-based compensation		3				3
Purchase of 1,017,000 treasury shares				(37,688)		(37,688)
Balances at September 30, 2007	\$ 46,249	\$ 103,475	\$ 216,652	\$ (70,260)	\$ (4,396)	\$ 291,720

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances at December 31, 2007	\$ 46,249	\$ 103,390	\$ 224,386	\$ (80,664)	\$ 633	\$ 273,014