

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

COMMUNITY BANK SYSTEM INC  
Form 13F-HR  
February 17, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 13F

Form 13F COVER PAGE

Report for the Calendar Year or Quarter Ended: DECEMBER 31, 2011

Check here if Amendment [ ]; Amendment Number: \_\_\_\_  
This Amendment (Check only one.): [ ] is a restatement.  
[ ] adds new holdings entries.

Institutional Investment Manager Filing this Report:

Name: COMMUNITY BANK N.A.  
Address: 5790 Widewaters Parkway  
DeWitt, NY 13214-1883

Form 13F File Number: 028-11044

The institutional investment manager filing this report and the person by whom it is signed hereby represent that the person signing the report is authorized to submit it, that all information contained herein is true, correct and complete, and that it is understood that all required items, statements, schedules, lists and tables, are considered integral parts of this form.

Person Signing this Report on Behalf of Reporting Manager:

Name: Karen Mohn signing for Community Bank Services Inc.  
Title: Chief Compliance Officer  
Phone: 716-633-3800  
Signature, Place, and Date of Signing:

Kathy Strohmeier Williamsville, NY 02/16/12  
[Signature] [City, State] [Date]

Report Type (Check only one.):

[X] 13F HOLDINGS REPORT. (Check here if all holdings of this reporting manager are reported in this report.)

[ ] 13F NOTICE. (Check here if no holdings reported are in this report, and all holdings are reported by other reporting manager(s).)

[ ] 13F COMBINATION REPORT. (Check here if a portion of the holdings for this reporting manager are reported in this report and a portion are reported by other reporting manager(s).)

List of Other Managers Reporting for this Manager: [If there are no entries in this list, omit this section.]

Form 13F File Number Name

\_\_\_\_\_ - [Repeat as necessary.]

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Form 13F SUMMARY PAGE

Report Summary:

Number of Other Included Managers: 0  
 Form 13F Information Table Entry Total: 768  
 Form 13F Information Table Value Total: \$346,890  
 (thousands)

List of other Included Managers:

Provide a numbered list of the name(s) and Form 13F file number(s) of all institutional investment managers with respect to which this report is filed, other than the manager filing this report.

[If there are no entries in this list, state [NONE] and omit the column headings and list entries.]

No. Form 13F File Number Name

[Repeat as necessary.]

As Of Date : 12/31/2011

FORM 13F INFORMATION TABLE

NAME OF ISSUER	TITLE OF CLASS	CUSIP	VALUE (X\$1000)	SHARES/		INVESTMENT DESC	
				PRN	AMT	SOLE	SHARED
COOPER INDUSTRIES PLC	SHS	G24140108	5	100	SH	DEFINED	
INGERSOLL-RAND PLC	SHS	G47791101	40	1320	SH	DEFINED	
TRANSOCEAN LTD	REGSHS	H8817H100	15	401	SH	SOLE	
FLEXTRONICS INTL LTD	ORD	Y2573F102	1	200	SH	SOLE	
AGL RES INC	COM	1204106	8	200	SH	SOLE	
AES CORP	COM	00130H105	10	833	SH	DEFINED	
ALPS ETF TR	ALERIAN MLP	00162Q866	2192	131984	SH	SOLE	
AT&T INC	COM	00206R102	1382	45731	SH	SOLE	

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

AT&T INC	COM	00206R102	237	7838	SH	DEFINED
ABBOTT LABS	COM	2824100	356	6329	SH	SOLE
AIR PRODS & CHEMS INC	COM	9158106	439	5150	SH	SOLE
ALCOA INC	COM	13817101	32	3683	SH	SOLE
ALLIANT ENERGY CORP	COM	18802108	42	958	SH	SOLE
ALTRIA GROUP INC	COM	02209S103	15	500	SH	SOLE
ALTRIA GROUP INC	COM	02209S103	36	1200	SH	DEFINED
AMERICAN ELEC PWR INC	COM	25537101	156	3786	SH	SOLE
AMERICAN ELEC PWR INC	COM	25537101	30	720	SH	DEFINED
AMERICAN EXPRESS CO	COM	25816109	12	250	SH	SOLE
AMGEN INC	COM	31162100	125	1950	SH	SOLE
AMGEN INC	COM	31162100	64	1000	SH	DEFINED
ANALOG DEVICES INC	COM	32654105	27	750	SH	SOLE
APACHE CORP	COM	37411105	40	440	SH	SOLE
APPLE INC	COM	37833100	5214	12874	SH	SOLE
APPLIED MATLS INC	COM	38222105	21	2000	SH	SOLE
AQUA AMERICA INC	COM	03836W103	22	1000	SH	SOLE
ASTRAZENECA PLC	SPONSORED ADR	46353108	2	53	SH	SOLE
AUTOMATIC DATA PROCESSING IN	COM	53015103	513	9493	SH	SOLE
BP PLC	SPONSORED ADR	55622104	60	1400	SH	SOLE
BAKER HUGHES INC	COM	57224107	85	1750	SH	SOLE
BANK OF AMERICA CORPORATION	COM	60505104	43	7750	SH	SOLE
BANK OF NEW YORK MELLON CORP	COM	64058100	557	27989	SH	SOLE
BARCLAYS BANK PLC	SP ADR 7.1%PF3	06739H776	308	15600	SH	SOLE
BARCLAYS BANK PLC	SP ADR 7.1%PF3	06739H776	34	1700	SH	DEFINED
BARRICK GOLD CORP	COM	67901108	17	375	SH	SOLE
BAXTER INTL INC	COM	71813109	163	3300	SH	SOLE
BECTON DICKINSON & CO	COM	75887109	127	1700	SH	SOLE
BECTON DICKINSON & CO	COM	75887109	6	75	SH	DEFINED
BERKSHIRE HATHAWAY INC DEL	CL B NEW	84670702	28	371	SH	SOLE
BEST BUY INC	COM	86516101	5	225	SH	SOLE
BOEING CO	COM	97023105	231	3150	SH	SOLE
BOEING CO	COM	97023105	37	500	SH	DEFINED
BRISTOL MYERS SQUIBB CO	COM	110122108	486	13806	SH	SOLE
BRISTOL MYERS SQUIBB CO	COM	110122108	28	800	SH	DEFINED
BUCKEYE PARTNERS L P	UNIT LTD PARTN	118230101	7	115	SH	SOLE
CIT GROUP INC	COMNEW	125581801	7	204	SH	SOLE
CVS CAREMARK/CORP	COM	126650100	249	6100	SH	SOLE
CATERPILLAR INC DEL	COM	149123101	200	2208	SH	SOLE
CENTERPOINT ENERGY INC	COM	15189T107	33	1627	SH	SOLE
CENTURYTEL INC	COM	156700106	39	1059	SH	SOLE
CHEVRON CORP	COM	166764100	242	2272	SH	SOLE
CHEVRON CORP	COM	166764100	34	320	SH	DEFINED
CHINA PETE & CHEM CORP	SPON ADR H SHS	16941R108	2	18	SH	SOLE
CHUBB CORP	COM	171232101	334	4825	SH	SOLE
CHURCH & DWIGHT INC	COM	171340102	3	68	SH	SOLE
CIENA CORP	COMNEW	171779309	17	1429	SH	SOLE
CISCO SYS INC	COM	17275R102	174	9633	SH	SOLE
CITIZENS & NORTHN CORP	COM	172922106	177	9597	SH	SOLE
CITIGROUP INC	COM	172967424	9	340	SH	SOLE
COCA COLA CO	COM	191216100	663	9470	SH	SOLE
COCA COLA CO	COM	191216100	225	3215	SH	DEFINED
COLGATE PALMOLIVE CO	COM	194162103	372	4025	SH	SOLE
COLGATE PALMOLIVE CO	COM	194162103	163	1768	SH	DEFINED
COMCAST CORP		20030N101	118	4969	SH	SOLE
COMMUNITY BK SYS INC	COM	203607106	11964	430501	SH	SOLE
COMMUNITY BK SYS INC	COM	203607106	982	35320	SH	DEFINED
CONOCOPHILLIPS	COM	20825C104	143	1966	SH	SOLE
CONOCOPHILLIPS	COM	20825C104	29	395	SH	DEFINED
CONSOLIDATED EDISON INC	COM	209115104	183	2955	SH	SOLE

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

CONSTELLATION BRANDS INC	CL A	21036P108	33	1600	SH	SOLE
CONSTELLATION BRANDS INC	CL A	21036P108	59	2846	SH	DEFINED
CORNING INC	COM	219350105	156	12056	SH	SOLE
CORNING INC	COM	219350105	3	240	SH	DEFINED
COVANCE INC	COM	222816100	2	48	SH	SOLE
CUMMINS INC	COM	231021106	79	900	SH	SOLE
CURTISS WRIGHT CORP	COM	231561101	28	800	SH	SOLE
DARDEN RESTAURANTS INC	COM	237194105	2	40	SH	SOLE
DEAN FOODS CO NEW	COM	242370104	84	7500	SH	SOLE
DEERE & CO	COM	244199105	18	239	SH	SOLE
DELL INC		24702R101	11	750	SH	SOLE
DISNEY WALT CO	COMDISNEY	254687106	302	8044	SH	SOLE
DOMINION RES INC VA NEW	COM	25746U109	172	3238	SH	SOLE
DOMINION RES INC VA NEW	COM	25746U109	16	300	SH	DEFINED
DONNELLEY R R & SONS CO	COM	257867101	1	100	SH	SOLE
DOW CHEM CO	COM	260543103	78	2708	SH	SOLE
DU PONT E I DE NEMOURS & CO	COM	263534109	273	5963	SH	SOLE
DU PONT E I DE NEMOURS & CO	COM	263534109	9	200	SH	DEFINED
DUKE ENERGY CORP NEW	COM	26441C105	136	6198	SH	SOLE
E M C CORP MASS	COM	268648102	143	6640	SH	SOLE
EASTMAN KODAK CO	COM	277461109	0	222	SH	SOLE
EATON CORP	COM	278058102	7	160	SH	DEFINED
EL PASO CORP		28336L109	86	3250	SH	SOLE
ELMIRA SVGS BK FSB N Y	COM	289660102	46	2803	SH	SOLE
EMERSON ELEC CO	COM	291011104	550	11810	SH	SOLE
ENTERPRISE PRODS PARTNERS L	COM	293792107	9	200	SH	DEFINED
EXELON CORP	COM	30161N101	27	619	SH	SOLE
EXELON CORP	COM	30161N101	35	800	SH	DEFINED
EXELIS INC	COM	30162A108	7	800	SH	DEFINED
EXPRESS SCRIPTS INC	COM	302182100	4	100	SH	DEFINED
EXXON MOBIL CORP	COM	30231G102	2554	30135	SH	SOLE
EXXON MOBIL CORP	COM	30231G102	241	2844	SH	DEFINED
FNB CORP PA	COM	302520101	39	3454	SH	SOLE
FTI CONSULTING INC	COM	302941109	2	43	SH	SOLE
FAIRCHILD SEMICONDUCTOR INTL	COM	303726103	1	110	SH	SOLE
FIRST TR ISE REVERE NAT GAS	COM	33734J102	4	225	SH	DEFINED
FIRSTENERGY CORP	COM	337932107	10	225	SH	SOLE
FORD MTR CO DEL	COMPAR \$0.01	345370860	54	5000	SH	SOLE
FORD MTR CO DEL	COMPAR \$0.01	345370860	30	2805	SH	DEFINED
FREEMPORT-MCMORAN COPPER & GO	COM	35671D857	5	140	SH	DEFINED
FRONTIER COMMUNICATIONS CORP	COM	35906A108	1	193	SH	SOLE
FRONTIER COMMUNICATIONS CORP	COM	35906A108	1	117	SH	DEFINED
GENERAL DYNAMICS CORP	COM	369550108	13	200	SH	SOLE
GENERAL ELEC CO	COM	369604103	3774	210860	SH	SOLE
GENERAL ELEC CO	COM	369604103	148	8291	SH	DEFINED
GENERAL MLS INC	COM	370334104	174	4300	SH	SOLE
GENERAL MLS INC	COM	370334104	78	1920	SH	DEFINED
GENESEE & WYO INC	CL A	371559105	6	100	SH	DEFINED
GENUINE PARTS CO	COM	372460105	28	450	SH	SOLE
GILEAD SCIENCES INC	COM	375558103	2	48	SH	SOLE
GLAXOSMITHKLINE PLC	SPONSORED ADR	37733W105	166	3641	SH	SOLE
GLOBAL X FDS	GLBX URANIUM	37950E754	1177	144375	SH	SOLE
GOLDMAN SACHS GROUP INC	COM	38141G104	14	150	SH	SOLE
GOOGLE INC	CL A	38259P508	58	90	SH	SOLE
HCP INC	COM	40414L109	32	781	SH	SOLE
HSBC HLDGS PLC	ADRA 1/40PF A	404280604	48	2000	SH	SOLE
HARSCO CORP		415864107	329	16000	SH	SOLE
HARTFORD FINL SVCS GROUP INC	COM	416515104	23	1400	SH	DEFINED
HEINZ H J CO	COM	423074103	310	5730	SH	SOLE
HEWLETT PACKARD CO	COM	428236103	185	7192	SH	SOLE
HEWLETT PACKARD CO	COM	428236103	9	360	SH	DEFINED

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

HOME DEPOT INC	COM	437076102	183	4347	SH	SOLE
HONEYWELL INTL INC	COM	438516106	183	3360	SH	SOLE
ITT CORP NEW	COMNEW	450911201	8	400	SH	DEFINED
ILLINOIS TOOL WKS INC	COM	452308109	437	9350	SH	SOLE
INTEL CORP	COM	458140100	541	22311	SH	SOLE
INTEL CORP	COM	458140100	223	9200	SH	DEFINED
INTEGRYS ENERGY GROUP INC	COM	45822P105	2	34	SH	SOLE
INTEGRYS ENERGY GROUP INC	COM	45822P105	38	700	SH	DEFINED
INTL BUSINESS MACH	COM	459200101	1778	9672	SH	SOLE
INTL BUSINESS MACH	COM	459200101	187	1019	SH	DEFINED
INTERNATIONAL GAME TECHNOLOG	COM	459902102	43	2500	SH	SOLE
INTUIT	COM	461202103	3	60	SH	SOLE
ISHARES SILVER TRUST	ISHARES	46428Q109	20	750	SH	SOLE
ISHARES INC	MSCI AUSTRALIA	464286103	229	10700	SH	SOLE
ISHARES INC	MSCI BRAZIL	464286400	271	4725	SH	SOLE
ISHARES INC	MSCI CDA INDEX	464286509	822	30914	SH	SOLE
ISHARES INC	MSCI CDA INDEX	464286509	94	3550	SH	DEFINED
ISHARES INC	MSCI THAILAND	464286624	316	5250	SH	SOLE
ISHARES INC	MSCI PAC J IDX	464286665	29	750	SH	SOLE
ISHARES INC	MSCI SINGAPORE	464286673	210	19350	SH	SOLE
ISHARES INC	MSCI TURKEY FD	464286715	457	11100	SH	SOLE
ISHARES INC	MSCI TAIWAN	464286731	192	16375	SH	SOLE
ISHARES INC	MSCI S KOREA	464286772	308	5900	SH	SOLE
ISHARES TR	DJ SEL DIV INX	464287168	4642	86340	SH	SOLE
I SHARES BARCLAYS TIPS BOND	FUND	464287176	496	4248	SH	SOLE
I SHARES BARCLAYS TIPS BOND	FUND	464287176	12	100	SH	DEFINED
I SHARES TR S&P 500 INDEX FD		464287200	6	50	SH	SOLE
I SHARES BARCLAYS AGGRGT		464287226	4443	40300	SH	SOLE
I SHARES MSCI EMERGING MKTS	INDEX FUND	464287234	1293	34099	SH	SOLE
I SHARES MSCI EMERGING MKTS	INDEX FUND	464287234	4	115	SH	DEFINED
ISHARES TR	IBOXX INV CPBD	464287242	88	770	SH	SOLE
ISHARES TR	IBOXX INV CPBD	464287242	158	1387	SH	DEFINED
ISHARES TR	S&PGBL HLTHCR	464287325	2348	41840	SH	SOLE
ISHARES TR	S&PGBL HLTHCR	464287325	105	1875	SH	DEFINED
ISHARES TR	S&PLTN AM 40	464287390	4	85	SH	DEFINED
ISHARES TR	3-Jan YR TRS BD	464287457	276	3266	SH	SOLE
ISHARES TR	3-Jan YR TRS BD	464287457	29	343	SH	DEFINED
I SHARES MSCI EAFE		464287465	10615	214355	SH	SOLE
I SHARES MSCI EAFE		464287465	302	6105	SH	DEFINED
I SHARES RUSSELL 1000 VALUE		464287598	9650	152034	SH	SOLE
I SHARES RUSSELL 1000 VALUE		464287598	527	8310	SH	DEFINED
ISHARES TR RUSSELL 1000	GROWTH INDEX FUND	464287614	11025	190770	SH	SOLE
ISHARES TR RUSSELL 1000	GROWTH INDEX FUND	464287614	603	10432	SH	DEFINED
ISHARES TR	RUSL 2000 VALU	464287630	122	1855	SH	SOLE
ISHARES TR	DJ US UTILS	464287697	35	400	SH	SOLE
ISHARES TR	S&PSMLCAP 600	464287804	5988	87681	SH	SOLE
ISHARES TR	S&PSMLCAP 600	464287804	352	5154	SH	DEFINED
ISHARES TR	JPMORGAN USD	464288281	1646	15000	SH	SOLE
ISHARES TR	HIGH YLD CORP	464288513	2560	28625	SH	SOLE
ISHARES TR	MRTG PLS CAP IDX	464288539	9	700	SH	SOLE
ISHARES TR	BARCLYS 1-3YR CR	464288646	2825	27114	SH	SOLE
ISHARES TR	BARCLYS 1-3YR CR	464288646	5	52	SH	DEFINED
ISHARES TR	US PFD STK IDX	464288687	2803	78715	SH	SOLE
ISHARES TR	US PFD STK IDX	464288687	10	270	SH	DEFINED
ISHARES TR	DJ MED DEVICES	464288810	6	100	SH	DEFINED
ISHARES TR	DJ OIL&GAS EXP	464288851	5	85	SH	DEFINED
ISHARES TR	MSCI PERU CAP	464289842	253	6600	SH	SOLE
ISHARES TR	HGHDIV EQT FD	46429B663	3422	61665	SH	SOLE
JDS UNIPHASE CORP	COMPAR \$0.001	46612J507	26	2500	SH	SOLE
JP MORGAN CHASE & CO	COM	46625H100	264	7925	SH	SOLE

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

JP MORGAN CHASE & CO	COM	46625H100	21	623	SH	DEFINED
JAZZ PHARMACEUTICALS INC	COM	472147107	4	100	SH	DEFINED
JOHNSON & JOHNSON	COM	478160104	842	12846	SH	SOLE
JOHNSON & JOHNSON	COM	478160104	155	2360	SH	DEFINED
KELLOGG CO	COM	487836108	25	500	SH	SOLE
KEYCORP NEW	COM	493267108	65	8435	SH	SOLE
KIMBERLY CLARK CORP	COM	494368103	7	100	SH	DEFINED
KIMCO RLTY CORP	COM	49446R109	9	559	SH	SOLE
KINDER MORGAN ENERGY PARTNER	UT LTD PARTNER	494550106	13	150	SH	DEFINED
KRAFT FOODS INC	CL A	50075N104	237	6342	SH	SOLE
KRAFT FOODS INC	CL A	50075N104	43	1139	SH	DEFINED
L-3 COMMUNICATIONS HLDGS INC	COM	502424104	2	23	SH	SOLE
LAZARD WORLD DIVID & INCOME	COM	521076109	18	1660	SH	DEFINED
LILLY ELI & CO	COM	532457108	73	1757	SH	SOLE
LINCOLN NATL CORP IND	COM	534187109	79	4091	SH	SOLE
LOCKHEED MARTIN CORP	COM	539830109	320	3950	SH	SOLE
LOWES COS INC	COM	548661107	117	4600	SH	SOLE
MACYS INC	COM	55616P104	8	250	SH	SOLE
MAGELLAN MIDSTREAM PRTRNS LP	COMUNIT RP LP	559080106	5	79	SH	DEFINED
MANTECH INTL CORP	CL A	564563104	1	35	SH	SOLE
MARATHON OIL CORP		565849106	24	832	SH	SOLE
MARATHON PETE CORP	COM	56585A102	7	202	SH	SOLE
MARKET VECTORS ETF TR	GOLD MINER ETF	57060U100	705	13700	SH	SOLE
MARKET VECTORS ETF TR	RUSSIA ETF	57060U506	181	6800	SH	SOLE
MARKET VECTORS ETF TR	AGRIBUS ETF	57060U605	5	100	SH	SOLE
MARKET VECTORS ETF TR	VIETNAM ETF	57060U761	208	14275	SH	SOLE
MCCORMICK & CO INC	COMMON VTG	579780206	3	54	SH	SOLE
MCDONALDS CORP	COM	580135101	236	2350	SH	SOLE
MEDTRONIC INC	COM	585055106	285	7450	SH	SOLE
MEDTRONIC INC	COM	585055106	94	2460	SH	DEFINED
MERCK & CO INC NEW	COM	58933Y105	505	13398	SH	SOLE
MERCK & CO INC NEW	COM	58933Y105	196	5201	SH	DEFINED
MICROSOFT CORP	COM	594918104	846	32603	SH	SOLE
MICROSOFT CORP	COM	594918104	158	6100	SH	DEFINED
MONSANTO CO (NEW)		61166W101	5	70	SH	DEFINED
MORGAN STANLEY	COMNEW	617446448	15	1000	SH	SOLE
MORGAN STANLEY INDIA INVS FD	COM	61745C105	29	2050	SH	SOLE
MYLAN LABS INC	COM	628530107	5	225	SH	SOLE
NCR CORP NEW	COM	62886E108	2	150	SH	SOLE
NATIONAL FUEL GAS CO N J	COM	636180101	4	80	SH	SOLE
NATIONAL FUEL GAS CO N J	COM	636180101	94	1685	SH	DEFINED
NEWELL RUBBERMAID INC	COM	651229106	10	650	SH	SOLE
NEWMONT MINING CORP	COM	651639106	3	52	SH	SOLE
NEXTERA ENERGY INC	COM	65339F101	64	1050	SH	SOLE
NOKIA CORP	SPONSORED ADR	654902204	28	5850	SH	SOLE
NORFOLK SOUTHERN CORP	COM	655844108	101	1382	SH	SOLE
NORWOOD FINANCIAL CORP	COM	669549107	37	1365	SH	SOLE
NUCOR CORP	COM	670346105	51	1300	SH	SOLE
NUVEEN PREFERRED AND	CONVERTIBLE INCOME	67073B106	8	1000	SH	SOLE
OGE ENERGY CORP	COM	670837103	34	600	SH	DEFINED
OCCIDENTAL PETE CORP DEL	COM	674599105	21	229	SH	SOLE
OCLARO INC	COMNEW	67555N206	0	35	SH	SOLE
OMNICOM GROUP INC	COM	681919106	20	450	SH	SOLE
OPEN TEXT CORP	COM	683715106	3	50	SH	SOLE
ORACLE CORP	COM	68389X105	117	4561	SH	SOLE
PPG INDS INC	COM	693506107	182	2177	SH	SOLE
PPL CORP	COM	69351T106	242	8235	SH	SOLE
PAYCHEX INC	COM	704326107	4	135	SH	SOLE
PAYCHEX INC	COM	704326107	9	312	SH	DEFINED
PENNEY J C INC	COM	708160106	35	1000	SH	SOLE

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

PEPSICO INC	COM	713448108	806	12145	SH	SOLE
PEPSICO INC	COM	713448108	173	2600	SH	DEFINED
PETROCHINA CO LTD	SPONSORED ADR	71646E100	2	13	SH	SOLE
PFIZER INC	COM	717081103	289	13364	SH	SOLE
PFIZER INC	COM	717081103	30	1400	SH	DEFINED
PHILIP MORRIS INTL INC	COM	718172109	41	523	SH	SOLE
PHILIP MORRIS INTL INC	COM	718172109	94	1200	SH	DEFINED
PINNACLE WEST CPTLCORP		723484101	235	4875	SH	SOLE
PLUM CREEK TIMBER CO INC	COM	729251108	10	274	SH	DEFINED
POWERSHARES DB CMDTY IDX TRA	UNIT BEN INT	73935S105	2118	78921	SH	SOLE
POWERSHARES ETF TRUST	BASIC MAT SECT	73935X427	4	140	SH	DEFINED
POWERSHARES ETF TRUST	WATER RESOURCE	73935X575	1	50	SH	SOLE
POWERSHARES ETF TRUST	FTSE RAFI 1000	73935X583	46	840	SH	SOLE
POWERSHS DB US DOLLAR INDEX	DOLL INDX BULL	73936D107	1664	74100	SH	SOLE
POWERSHARES ETF TRUST II	MENA FRNTR ETF	73936Q603	16	1500	SH	SOLE
POWERSHARES ETF TR II	BUILD AMER ETF	73937B407	563	19600	SH	SOLE
PRAXAIR INC	COM	74005P104	194	1812	SH	SOLE
PROCTER & GAMBLE CO	COM	742718109	825	12376	SH	SOLE
PROGRESS ENERGY INC	COM	743263105	73	1311	SH	SOLE
PROGRESSIVE CORP OHIO	COM	743315103	39	2000	SH	SOLE
PROSHARES TR	PSHS ULTSH 20YRS	74347R297	903	50000	SH	SOLE
PROSHARES TR	PSHS ULSHT SP500	74347R883	1928	100000	SH	SOLE
PROSHARES TR II	ULTSH DJ UBS CRU	74347W668	193	5000	SH	SOLE
PRUDENTIAL FINL INC	COM	744320102	10	204	SH	SOLE
PUBLIC SVC ENTERPRISE GROUP	COM	744573106	10	310	SH	SOLE
QUALCOMM INC	COM	747525103	260	4760	SH	SOLE
QUEST DIAGNOSTICS INC	COM	74834L100	1	25	SH	SOLE
RAYTHEON CO	COMNEW	755111507	48	1000	SH	SOLE
RESEARCH IN MOTION LTD	COM	760975102	1	38	SH	SOLE
RITE AID CORP	COM	767754104	6	5000	SH	SOLE
ROCKWELL COLLINS INC		774341101	209	3775	SH	SOLE
ROYAL DUTCH SHELL PLC	SPONS ADR A	780259206	427	5847	SH	SOLE
SPDR S&P 500 ETF TRUST		78462F103	3417	27230	SH	SOLE
SPDR S&P 500 ETF TRUST		78462F103	145	1154	SH	DEFINED
SPDR GOLD TRUST	GOLD SHS	78463V107	39	257	SH	SOLE
SPDR GOLD TRUST	GOLD SHS	78463V107	29	190	SH	DEFINED
SPDR INDEX SHS FDS	S&PINTL ETF	78463X772	41	875	SH	SOLE
SPDR INDEX SHS FDS	MACQU GLBIN100	78463X855	2	50	SH	SOLE
SPDR SERIES TRUST	BRCLYS CAP CONV	78464A359	1184	32735	SH	SOLE
SPDR SERIES TRUST	LEHMAN YLD ETF	78464A417	3088	80300	SH	SOLE
SPDR SERIES TRUST	LEHMAN YLD ETF	78464A417	136	3525	SH	DEFINED
SPDR SERIES TRUST	OILGAS EQUIP	78464A748	5	150	SH	DEFINED
SPDR SERIES TRUST	S&PMETALS MNG	78464A755	9	175	SH	DEFINED
SPDR SERIES TRUST	S&PDIVID ETF	78464A763	32	600	SH	SOLE
SPDR SERIES TRUST	S&PSEMICNDCR	78464A862	1	23	SH	SOLE
SPDR S&P MIDCAP 400 ETF TR	UTSER1 S&PDCRP	78467Y107	7204	45170	SH	SOLE
SPDR S&P MIDCAP 400 ETF TR	UTSER1 S&PDCRP	78467Y107	318	1994	SH	DEFINED
SANOFI AVENTIS	SPONSORED ADR	80105N105	4	96	SH	SOLE
SCHLUMBERGER LTD		806857108	755	11050	SH	SOLE
SELECT SECTOR SPDR TR	SBIMATERIALS	81369Y100	4	130	SH	DEFINED
SELECT SECTOR SPDR TR	SBICONS STPLS	81369Y308	121	3725	SH	SOLE
SELECT SECTOR SPDR TR	SBIINT-FINL	81369Y605	2	162	SH	SOLE
SELECT SECTOR SPDR TR	SBIINT-TECH	81369Y803	467	18350	SH	SOLE
SELECT SECTOR SPDR TR	SBIINT-UTILS	81369Y886	94	2625	SH	SOLE
SIGMA ALDRICH CORP	COM	826552101	195	3130	SH	SOLE
SOUTHERN CO	COM	842587107	431	9320	SH	SOLE
SOUTHERN CO	COM	842587107	76	1645	SH	DEFINED
SPECTRA ENERGY CORP	COM	847560109	74	2411	SH	SOLE
STAPLES INCORPORATED		855030102	31	2250	SH	SOLE
STATE STR CORP	COM	857477103	40	1000	SH	SOLE

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

STRYKER CORP	COM	863667101	5	110	SH	SOLE
SYMANTEC CORP	COM	871503108	38	2455	SH	SOLE
SYSCO CORP	COM	871829107	70	2375	SH	SOLE
TARGET CORP	COM	87612E106	215	4200	SH	SOLE
TENARIS S A	SPONSORED ADR	88031M109	37	1000	SH	SOLE
TEVA PHARMACEUTICAL INDS LTD	ADR	881624209	3	62	SH	SOLE
TEXAS INSTRS INC	COM	882508104	150	5145	SH	SOLE
THERMO FISHER SCIENTIFIC INC	COM	883556102	12	258	SH	SOLE
3M CO	COM	88579Y101	114	1400	SH	SOLE
3M CO	COM	88579Y101	33	400	SH	DEFINED
TOMPKINS TRUST CO INC	COM	890110109	129	3341	SH	SOLE
TRANSCANADA CORP	COM	89353D107	4	100	SH	DEFINED
TRANS1 INC	COM	89385X105	13	6825	SH	SOLE
TRANS1 INC	COM	89385X105	4	1925	SH	DEFINED
TRAVELERS COMPANIES INC	COM	89417E109	12	208	SH	SOLE
TREEHOUSE FOODS INC	COM	89469A104	19	290	SH	SOLE
TRUSTCO BK CORP N Y	COM	898349105	5	842	SH	DEFINED
UIL HLDG CORP	COM	902748102	20	573	SH	SOLE
UNION PAC CORP	COM	907818108	427	4035	SH	SOLE
UNION PAC CORP	COM	907818108	4	40	SH	DEFINED
UNITED PARCEL SERVICE INC	CL B	911312106	92	1260	SH	SOLE
UNITED TECHNOLOGIES CORP	COM	913017109	262	3585	SH	SOLE
VALERO ENERGY CORP NEW	COM	91913Y100	2	105	SH	SOLE
VANGUARD SPECIALIZED PORTFOL	DIVAPP ETF	921908844	10483	191825	SH	SOLE
VANGUARD BD INDEX FD INC	TOTAL BND MRKT	921937835	1011	12107	SH	SOLE
VANGUARD BD INDEX FD INC	TOTAL BND MRKT	921937835	546	6540	SH	DEFINED
VANGUARD HIGH DIVIDEND YIELD	ETF	921946406	20	450	SH	SOLE
VANGUARD MSCI EMERGING	MARKETS ETF	922042858	2180	57070	SH	SOLE
VANGUARD MSCI EMERGING	MARKETS ETF	922042858	160	4195	SH	DEFINED
VANGUARD INDEX FDS	REIT ETF	922908553	39	675	SH	SOLE
VANGUARD INDEX FDS	MIDCAP ETF	922908629	306	4258	SH	SOLE
VANGUARD INDEX FDS	MIDCAP ETF	922908629	151	2100	SH	DEFINED
VANGUARD INDEX FDS	SMALL CP ETF	922908751	7	100	SH	DEFINED
VERIZON COMMUNICATIONS	COM	92343V104	881	21960	SH	SOLE
VERIZON COMMUNICATIONS	COM	92343V104	48	1206	SH	DEFINED
VISA INC	COMCL A	92826C839	79	775	SH	SOLE
VODAFONE GROUP PLC NEW	SPONS ADR NEW	92857W209	3	100	SH	SOLE
VULCAN MATLS CO	COM	929160109	98	2500	SH	SOLE
WAL MART STORES INC	COM	931142103	723	12099	SH	SOLE
WALGREEN CO	COM	931422109	195	5900	SH	SOLE
WASTE MGMT INC DEL	COM	94106L109	10	300	SH	SOLE
WASTE MGMT INC DEL	COM	94106L109	20	625	SH	DEFINED
WELLS FARGO & CO NEW	COM	949746101	146	5286	SH	SOLE
WESTERN ASSET MANAGED MUNI		95766M105	36	2673		SOLE
WINDSTREAM CORP	COM	97381W104	10	845	SH	SOLE
WINDSTREAM CORP	COM	97381W104	1	59	SH	DEFINED
WISCONSIN ENERGY CORP	COM	976657106	58	1650	SH	SOLE
WISDOMTREE TRUST	CHINESE YUAN ETF	97717W182	2	80	SH	SOLE
WISDOMTREE EQUTT INCOME FUND		97717W208	13	300	SH	SOLE
WISDOMTREE TRUST	EMERG MKTS ETF	97717W315	3379	65900	SH	SOLE
WISDOMTREE TRUST	INTL MIDCAP DV	97717W778	52	1200	SH	SOLE
WISDOMTREE TRUST	INTL DV TOP100	97717W786	63	1600	SH	SOLE
WISDOMTREE TR	EM LCL DEBT FD	97717X867	1876	38575	SH	SOLE
XEROX CORP	COM	984121103	10	1225	SH	SOLE
XYLEM INC	COM	98419M100	21	800	SH	DEFINED
YUM BRANDS INC		988498101	55	926	SH	SOLE
ZIMMER HLDGS INC	COM	98956P102	100	1868	SH	SOLE
GRAND TOTALS			175278	4018016		



Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

NAME OF ISSUER	TYPE	CUSIP	VALUE	SHARES/	INVESTMENT DESC	
			(X\$1000)	PRN AMT	SOLE	SHARED
AER Energy Res Inc New	Equity	000944207	0	50	50	0
AGL Res Inc	Equity	001204106	10,607	251	251	0
AT&T Inc	Equity	00206R102	3,496,802	115,635	89,831	25,804
Abbott Laboratories	Equity	002824100	2,390,169	42,507	36,057	6,450
Advanced Micro Devices Inc	Equity	007903107	1,080	200	200	0
Aetna US Healthcare	Equity	00817y108	42,190	1,000	0	1,000
Air Products & Chemicals Inc	Equity	009158106	25,557	300	300	0
Alcoa Inc	Equity	013817101	41,520	4,800	700	4,100
Alcatel Lucent	Equity	013904305	14	9	9	0
Allstate Corp	Equity	020002101	14,582	532	532	0
Alpha Natural Res Inc	Equity	02076X102	2,206	108	0	108
Altria Group Inc	Equity	02209S103	28,168	950	200	750
American Express Co	Equity	025816109	9,434	200	0	200
American Int'l Group Wrts Exp 01/19/21	Equity	026874156	77	14	4	10
American Int'l Group Inc	Equity	026874784	162	7	7	0
MLP Amerigas Partners LP	Equity	030975106	82,638	1,800	700	1,100
Amgen Inc	Equity	031162100	667,013	10,388	8,888	1,500
Anadarko Petroleum Corp	Equity	032511107	45,798	600	600	0
Anheuser Busch Cos Inc 5.000% 01/15/15		035229CY7	275,140	250,000	200,000	50,000
Annaly Capital Management Inc	Equity	035710409	17,556	1,100	1,100	0
Apache Corp	Equity	037411105	11,323	125	125	0
Apple Computer Inc	Equity	037833100	46,575	115	115	0
Applied Materials Inc	Equity	038222105	33,201	3,100	3,100	0
Arrow Financial Corp	Equity	042744102	164	7	7	0
Astoria Financial Corp	Equity	046265104	92,541	10,900	7,300	3,600
Autoliv Inc	Equity	052800109	160	3	3	0
Automatic Data Processing Inc	Equity	053015103	1,986,380	36,778	30,628	6,150
BB&T Corp	Equity	054937107	185,000	7,350	6,350	1,000
BFC Financial Corp	Equity	055384200	10	28	28	0
BP PLC ADR	Equity	055622104	5,642	132	0	132
Ballston Spa Bancorp Inc	Equity	058701103	31,000	1,000	1,000	0
Bank of America Corp	Equity	060505104	65,330	11,750	9,200	2,550
Bank New York Mellon Corp	Equity	064058100	33,847	1,700	1,700	0
BankAtlantic Bancorp Inc Cl A	Equity	065908808	149	44	44	0
The Banker's Store Inc (Restricted)	Equity	06631K109	1	50	50	0
Baseline Oil & Gas Corp	Equity	069827103	9	1,750	1,750	0
Baxter International Inc	Equity	071813109	9,896	200	0	200
Becton, Dickinson & Co	Equity	075887109	336,240	4,500	2,000	2,500
Bemis Co Inc	Equity	081437105	923,456	30,700	22,150	8,550
Berkshire Hathaway Class B	Equity	084670702	52,037	682	372	310
Berkshire Hills Bancorp Inc	Equity	084680107	25,008	1,127	0	1,127
Best Buy Inc	Equity	086516101	18,696	800	800	0
Blackrock Muniholdings NY Insd Fd	Equity	09255C106	58,139	3,835	3,835	0
Boeing Co	Equity	097023105	47,678	650	500	150
Bristol Myers Squibb Co	Equity	110122108	775,280	22,000	9,600	12,400
Broadridge Financial Solutions Inc	Equity	11133T103	10,148	450	0	450
MLP Buckeye Partners LP	Equity	118230101	12,796	200	0	200
CME Group Inc	Equity	12572Q105	6,092	25	25	0

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Cardinal Health Inc	Equity	14149Y108	6,092	150	150	0
Caterpillar Inc	Equity	149123101	135,900	1,500	500	1,000
Cenovus Energy Inc	Equity	15135U109	5,246	158	158	0
CenterPoint Energy Inc	Equity	15189T107	2,009	100	100	0
NY Chappaqua CSD 4.125% 01/15/17		159555GU9	575,633	575,000	375,000	200,000
Chesapeake Energy Corp	Equity	165167107	25,455	1,142	1,142	0
Chevron Corp	Equity	166764100	2,926,000	27,500	20,550	6,950
Chubb Corp	Equity	171232101	280,341	4,050	2,450	1,600
Cisco Systems Inc	Equity	17275R102	785,160	43,427	33,527	9,900
Citadel Broadcasting Corp	Equity	17285T106	3	15	0	15
Citigroup Inc New	Equity	172967424	16,575	630	530	100
Citigroup Cap I 6.10%	Preferred Stock	173064205	16,888	800	800	0
Clarent Corp	Equity	180461105	0	100	100	0
Coca Cola Co	Equity	191216100	2,857,785	40,843	30,793	10,050
Colgate Palmolive Co	Equity	194162103	480,613	5,202	2,402	2,800
Comcast Corp New Cl A	Equity	20030N101	20,154	850	850	0
Community Bank System Inc	Equity	203607106	36,195,350	1,301,991	46,0841,	255,907
ConAgra Foods Inc	Equity	205887102	2,640	100	0	100
ConocoPhillips Co	Equity	20825C104	1,613,342	22,140	17,990	4,150
Consolidated Edison Inc	Equity	209115104	214,004	3,450	3,450	0
Corning Inc	Equity	219350105	19,470	1,500	500	1,000
Corning Natural Gas Corp	Equity	219381100	5,100	300	0	300
Cubist Pharmaceuticals Inc	Equity	229678107	7,924	200	0	200
DWS Intermediate Tax Free Cl S	Equity	23337X509	34,530	2,921	2,921	0
Darden Restaurants Inc	Equity	237194105	22,790	500	0	500
Deere & Co	Equity	244199105	7,735	100	100	0
Delhi Bank Corp	Equity	246694103	80,800	3,200	3,200	0
Dell Inc	Equity	24702R101	11,704	800	700	100
Deutsche Telekom ADR	Equity	251566105	8,056	700	0	700
Devon Energy Corp New	Equity	25179M103	285,200	4,600	3,100	1,500
Dime Bancorp Inc New	Equity	25429Q102	1	3	3	0
Discovery Laboratories Inc New	Equity	254668403	34	20	20	0
Disney (Walt) Co	Equity	254687106	243,750	6,500	6,100	400
Dominion Resources New	Equity	25746U109	2,505,376	47,200	33,000	14,200
Dow Chemical Co	Equity	260543103	642,786	22,350	19,675	2,675
Du Pont de Nemours EI Co	Equity	263534109	13,734	300	300	0
Duke Realty Corp	Equity	264411505	12,050	1,000	500	500
Duke Energy Corp New	Equity	26441C105	85,800	3,900	2,200	1,700
Dune Energy Inc	Equity	265338509	6	200	200	0
EMC Corp	Equity	268648102	4,308	200	200	0
EOG Resources Inc	Equity	26875P101	256,126	2,600	2,350	250
Earth Sciences Inc	Equity	270312200	2	4,000	4,000	0
Eaton Corp	Equity	278058102	52,236	1,200	1,200	0
Emerson Elec Co	Equity	291011104	300,878	6,458	5,208	1,250
Encana Corp	Equity	292505104	2,372	128	128	0
Entergy Corp	Equity	29364G103	1,972	27	27	0
Enterprise Prods Partners	Equity	293792107	57,882	1,248	1,048	200
Equity Residential	Equity	29476L107	34,218	600	600	0
European Goldfields	Equity	298774100	6,153	532	0	532
Exelon Corp	Equity	30161N101	1,585,130	36,549	27,074	9,475
Exxon Mobil Corp	Equity	30231G102	5,741,303	67,736	51,976	15,760
Fastenal Co	Equity	311900104	409,934	9,400	6,400	3,000
Federated US Govt Sec Fd 1-3	Equity	31428M100	355,258	32,773	28,728	4,045
Federated US Govt Sec Fd 2-5	Equity	31428P103	290,078	24,964	13,571	11,392
Fiserv Inc	Equity	337738108	29,370	500	500	0
FL Brd of Ed FSA Insd 4.000% 06/01/17		341426FS8	51,178	50,000	50,000	0
Ford Motor Co	Equity	345370860	7,532	700	700	0
FDRY Networks Inc	Equity	35063R100	3,300	200	200	0
France Telecom ADR	Equity	35177Q105	15,660	1,000	0	1,000

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Franco Nevada Corp	Equity	351858105	5,025	132	0	132
Franklin Income A	Equity	353496300	22,748	10,832	10,832	0
Franklin NY Tax Free Inc Fd	Equity	354130106	828,009	69,933	43,692	26,241
Freeport McMoran C&G Inc	Equity	35671D857	183,950	5,000	0	5,000
Frontier Communications	Equity	35906A108	865	168	48	120
General Dynamics Corp	Equity	369550108	79,692	1,200	1,200	0
General Electric Co	Equity	369604103	2,457,503	137,214	97,989	39,225
GE Capital Corp Pfd	Preferred					
6.625% 06/28/32	Stock	369622527	263,400	10,000	7,600	2,400
General Mills Inc	Equity	370334104	1,314,456	32,528	23,028	9,500
General Motors Co	Equity	37045V100	3,284	162	0	162
General Motors Co Wts						
Exp 07/10/16	Equity	37045V118	1,713	146	0	146
General Motors Co Warrants						
Exp 07/10/19	Equity	37045V126	1,142	146	0	146
Genuine Parts Co	Equity	372460105	1,775	29	29	0
Glaxo SmithKline PLC ADR	Equity	37733W105	31,941	700	700	0
Global High Income Dollar Fund	Equity	37933G108	6,040	500	500	0
Sahara Expl Corp						
(Restricted Shares)	Equity	37944P972	0	90	90	0
Biosphere Develop Corp						
(Restricted Shares)	Equity	37944P998	0	90	90	0
Gold Resource Corp	Equity	38068T105	5,546	261	0	261
Goldcorp Inc	Equity	380956409	4,823	109	0	109
Golden Queen Mining Co Ltd	Equity	38115J100	4,407	1,558	0	1,558
Halliburton Co	Equity	406216101	34,510	1,000	1,000	0
Hanger Orthopedic Group Inc	Equity	41043F208	3,738	200	200	0
Harley Davidson Inc	Equity	412822108	46,644	1,200	200	1,000
Health Care REIT Pfd F	Preferred					
	Stock	42217K403	7,725	300	0	300
Heinz H J Co	Equity	423074103	16,212	300	300	0
The Hershey Co	Equity	427866108	154,450	2,500	1,500	1,000
Hewlett Packard Co	Equity	428236103	116,512	4,523	3,023	1,500
Home Depot Inc	Equity	437076102	13,032	310	310	0
Honeywell Int'l Inc	Equity	438516106	43,480	800	800	0
NY Huntington Pub Impt						
4.000% 10/15/17		446457MF7	146,538	135,000	100,000	35,000
ICAD Inc	Equity	44934S107	5,700	10,000	10,000	0
Illinois Tool Works Inc	Equity	452308109	1,123,376	24,050	18,975	5,075
ING Groep NV						
7.375%	Preferred					
	Stock	456837707	18,430	1,000	0	1,000
Integrated Device Tech Inc Com	Equity	458118106	1,092	200	0	200
Intel Corp	Equity	458140100	1,431,356	59,025	47,250	11,775
Intl Business Machines Corp	Equity	459200101	20,892,629	113,621	22,462	91,159
Intl Flavors & Fragrances Inc	Equity	459506101	241,132	4,600	4,600	0
iShares MSCI Canada	Equity	464286509	13,300	500	300	200
iShares MSCI S Africa	Equity	464286780	12,214	200	200	0
iShares TR MSCI Emerging						
Markets	Equity	464287234	3,794	100	100	0
iShares Barclays 1-3 Yr ETF	Equity	464287457	25,350	300	300	0
iShares TR MSCI EAFE						
Index Fund	Equity	464287465	4,953	100	100	0
iShares Russell MidCap						
Value Fd	Equity	464287473	1,224,965	28,225	23,225	5,000
iShares TR Cohen & Steers						
Realty	Equity	464287564	7,724	110	110	0
iShares Russell 2000 Index						
Fund	Equity	464287655	7,375	100	100	0
iShares Barclays 1-3 Yr						
ETF Bond Fd	Equity	464288646	12,296	118	118	0
iShares Silver Trust	Equity	46428Q109	104,312	3,872	2,000	1,872

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

JP Morgan Chase & Co	Equity	46625H100	990,850	29,800	26,300	3,500
JP Morgan Chase Cap Tr XI	Preferred					
	Stock	46626V207	25,010	1,000	1,000	0
Jeffersonville Bancorp	Equity	47559A103	63,704	6,215	6,215	0
Johnson & Johnson	Equity	478160104	3,672,611	56,002	42,562	13,440
Johnson Controls Inc	Equity	478366107	359,490	11,500	7,200	4,300
JP Morgan NY Tax Free Bond Cl A	Equity	4812A0755	65,682	8,781	8,781	0
Keycorp	Equity	493267108	66,903	8,700	3,700	5,000
Kimberly Clark Corp	Equity	494368103	1,432,581	19,475	13,975	5,500
Kinder Morgan Energy Partners	Equity	494550106	25,485	300	200	100
Kraft Foods Inc	Equity	50075N104	8,892	238	138	100
Legg Mason Inc	Equity	524901105	69,745	2,900	2,800	100
Lilly Eli & Co	Equity	532457108	553,787	13,325	11,125	2,200
Lorillard Inc	Equity	544147101	11,400	100	100	0
M & T Bank Corp	Equity	55261F104	821,876	10,766	766	10,000
Mack Cali Realty Corp	Equity	554489104	13,345	500	500	0
Magellan Energy Ltd New	Equity	559071204	0	1	1	0
NY Mamaroneck UFSD						
4.000% 10/01/16		561467NM9	348,911	340,000	290,000	50,000
Marathon Oil Corp	Equity	565849106	11,708	400	400	0
Marathon Petro Corp	Equity	56585A102	8,323	250	250	0
MFC Market Vectors						
Agri Business	Equity	57060U605	4,715	100	100	0
MA St Health & Ed (Williams)						
5.000% 07/01/22		57585KV70	421,480	400,000	300,000	100,000
McDonalds Corp	Equity	580135101	561,447	5,596	1,096	4,500
McGraw Hill Inc	Equity	580645109	8,994	200	0	200
McKesson Corp	Equity	58155q103	276,581	3,550	1,250	2,300
Medco Health Solutions Inc	Equity	58405U102	11,180	200	200	0
Medical Properties Trust Inc	Equity	58463J304	8,883	900	0	900
Medtronic Inc	Equity	585055106	86,063	2,250	1,950	300
Merchants Bancshares Inc	Equity	588448100	226,300	7,750	4,750	3,000
Merck & Co Inc New	Equity	58933Y105	1,563,871	41,482	31,680	9,802
Merrill Lynch Pfd Cap Tr III	Preferred					
	Stock	59021F206	7,968	400	400	0
MetLife Inc	Equity	59156R108	46,645	1,496	596	900
Microsoft Corp	Equity	594918104	932,925	35,937	27,587	8,350
Microbyx	Equity	594992107	1	875	0	875
NJ Middlesex Co						
4.125% 01/01/20		59656NGY2	27,624	25,000	25,000	0
NJ Middlesex Co						
4.125% 01/01/21		59656NGZ9	27,481	25,000	25,000	0
Mirant Corp Escrow Shares		604675991	0	180	180	0
Monsanto Co	Equity	61166W101	469,609	6,702	5,800	902
Morgan Stanley	Equity	617446448	10,288	680	680	0
The Mosaic Company	Equity	61945C103	1,160	23	23	0
NBT Bancorp Inc	Equity	628778102	403,009	18,211	5,305	12,906
Namic Insurance Co Inc B	Equity	62989*105	5,475	30	30	0
National Bank of Greece ADR	Equity	633643606	396	200	200	0
National Fuel Gas Co	Equity	636180101	55,580	1,000	0	1,000
National Grid Transco PLC						
Sponsored ADR	Equity	636274300	10,714	221	121	100
Natural Resources Partners LP	Equity	63900P103	10,844	400	0	400
Nestle	Equity	641069406	11,550	200	0	200
Nevada Gold & Casinos Inc	Equity	64126Q206	1,150	1,000	0	1,000
NY New Castle Tn						
3.750% 12/01/12		643408PU5	103,106	100,000	0	100,000
New Gold Inc	Equity	644535106	4,536	450	0	450
New York Community Bancorp	Equity	649445103	1,237	100	100	0
NYSDA Lutheran Medical Ctr						
4.000% 02/01/15		649901T88	707,840	700,000	390,000	310,000
Newell Rubbermaid Inc	Equity	651229106	1,615	100	0	100

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Nextera Energy Inc	Equity	65339F101	1,063,878	17,475	12,375	5,100
Nike Inc Class B	Equity	654106103	269,836	2,800	2,200	600
Norfolk Southern Corp	Equity	655844108	36,430	500	500	0
Nortel Networks Corp New	Equity	656568508	0	20	20	0
North European Oil Royalty Trust	Equity	659310106	9,756	300	300	0
NY East Northport UFSD 4.000% 08/01/17		666641FS9	301,774	275,000	150,000	125,000
Northrop Grumman Corp	Equity	666807102	46,784	800	800	0
Novartis Ag ADR	Equity	66987V109	2,028,106	35,475	27,875	7,600
Nstar Com	Equity	67019E107	19,723	420	420	0
Nucor Corp	Equity	670346105	867,572	21,925	18,225	3,700
Nuveen NY Municipal Value Fd	Equity	67062M105	63,349	6,386	5,886	500
Nuveen NY Invt Quality Muni Fd	Equity	67062X101	36,214	2,350	2,350	0
OGE Energy Corp	Equity	670837103	289,221	5,100	3,100	2,000
Occidental Petroleum Corp	Equity	674599105	65,590	700	700	0
Olin Corp	Equity	680665205	9,825	500	500	0
Oneok Partners LP	Equity	68268N103	23,096	400	400	0
Oracle Corp	Equity	68389X105	179,037	6,980	5,980	1,000
Paincare Holdings Inc	Equity	69562E104	0	640	640	0
Parker Hannifin Corp	Equity	701094104	30,500	400	250	150
Peabody Energy Corp	Equity	704549104	9,933	300	300	0
Pengrowth Energy Corp	Equity	70706P104	25,272	2,400	1,200	1,200
PEPCO Holdings Inc	Equity	713291102	4,060	200	0	200
PepsiCo Inc	Equity	713448108	2,811,979	42,381	32,081	10,300
Permian Basin Royalty Tr	Equity	714236106	4,074	200	200	0
Pfizer Inc	Equity	717081103	1,590,648	73,505	65,405	8,100
Philip Morris International Inc	Equity	718172109	15,696	200	200	0
Pitney Bowes Inc	Equity	724479100	81,576	4,400	4,300	100
Plains All American Pipeline, LLP	Equity	726503105	22,035	300	0	300
Plug Power Inc New	Equity	72919P202	6	3	3	0
Potash Corp Sask Inc	Equity	73755L107	795,672	19,275	15,450	3,825
PowerShares Exchange	Equity	73935A104	6,979	125	125	0
PowerShares Financial Preferred	Equity	73935X229	11,606	720	720	0
Principal Financial Group Inc	Equity	74251V102	10,947	445	445	0
Procter & Gamble Co	Equity	742718109	3,849,701	57,708	45,158	12,550
Progress Energy Inc	Equity	743263105	93,609	1,671	1,171	500
Prudential Financial Inc	Equity	744320102	9,372	187	187	0
Public Service Enterprise	Equity	744573106	1,389,721	42,100	28,950	13,150
Qualcomm Inc	Equity	747525103	92,990	1,700	1,700	0
Reynolds American Inc	Equity	761713106	10,355	250	0	250
Rio Tinto PLC ADR	Equity	767204100	195,680	4,000	0	4,000
Rockwell Automation Inc	Equity	773903109	36,685	500	500	0
T Rowe Price Summit Municipal Intermediate Fd	Equity	77957N209	69,089	5,910	5,910	0
Royal Bank of Canada	Equity	780087102	50,960	1,000	0	1,000
Royal Dutch Shell PLC A ADR	Equity	780259206	190,034	2,600	2,200	400
Rubicon Minerals Corp	Equity	780911103	4,642	1,228	0	1,228
SE Financial Corp	Equity	78412R108	64,896	4,800	0	4,800
SPDR S&P 500 ETF Trust	Equity	78462F103	28,238	225	225	0
SPDR Gold Trust	Equity	78463V107	46,053	303	303	0
SPDR S&P 400 Midcap ETF Tr	Equity	78467Y107	15,949	100	100	0
Sabine Royalty Trust	Equity	785688102	12,610	200	200	0
Sara Lee Corp	Equity	803111103	18,069	955	955	0
Scana Corp New	Equity	80589M102	27,036	600	600	0
Schlumberger Ltd	Equity	806857108	47,817	700	700	0
MFC Select Sector	Equity	81369Y100	3,350	100	100	0
Sempra Energy Inc	Equity	816851109	1,522,950	27,690	23,415	4,275
Silver Wheaton Corp	Equity	828336107	15,638	540	0	540
Sonoco Products Co	Equity	835495102	59,328	1,800	1,800	0
NY Southampton						

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

4.500% 10/01/21		841205VF1	179,370	175,000	175,000	0
NY Southampton Tn						
4.000% 11/01/19		841205WR4	189,546	175,000	175,000	0
Southern Co	Equity	842587107	50,919	1,100	900	200
Spectra Energy Corp	Equity	847560109	4,613	150	50	100
Sprint Nextel Corp	Equity	852061100	234	100	100	0
Stanley Black & Decker Inc	Equity	854502101	905,840	13,400	10,800	2,600
Suncor Energy Inc New	Equity	867224107	28,830	1,000	1,000	0
NY Syosset CSD						
4.000% 07/15/17		871633FQ1	53,865	50,000	50,000	0
Sysco Corp	Equity	871829107	1,072,012	36,550	25,950	10,600
Taylor Capital Group Inc	Preferred					
9.75%	Stock	87216N205	8,050	350	0	350
Target Corp	Equity	87612E106	317,564	6,200	5,600	600
Telefonica SA ADR	Equity	879382208	3,438	200	0	200
Teva Pharmaceutical Industries	Equity	881624209	4,036	100	0	100
Texas Instruments Inc	Equity	882508104	342,043	11,750	10,650	1,100
Thermo Fisher Corp	Equity	883556102	13,491	300	300	0
3M Company	Equity	88579Y101	3,507,443	42,915	35,415	7,500
Thunder Mountain Gold	Equity	886043108	425	5,000	5,000	0
Toronto Dominion Bank	Equity	891160509	14,214	190	190	0
Torvec Inc	Equity	891479107	1,660	2,000	2,000	0
Total SA	Equity	89151E109	86,887	1,700	0	1,700
Toyota Motors ADR	Equity	892331307	13,226	200	0	200
Tronox Inc Warrants B	Equity	897051124	54	1	1	0
US Bancorp Del	Equity	902973304	129,840	4,800	2,600	2,200
Unilever ADR	Equity	904767704	3,352	100	0	100
Unilever NV NY New	Equity	904784709	17,185	500	500	0
United Parcel Svc Inc Cl B	Equity	911312106	1,321,080	18,050	13,525	4,525
US Tsy						
4.375% 08/15/12		912828AJ9	913,432	890,000	595,000	295,000
US Tsy						
4.000% 11/15/12		912828AP5	2,190,638	2,120,000	1,420,000	700,000
US Tsy						
4.250% 08/15/13		912828BH2	2,326,171	2,185,000	1,510,000	675,000
United Technologies Corp	Equity	913017109	1,666,452	22,800	18,500	4,300
United Health Group Inc	Equity	91324P102	668,976	13,200	11,900	1,300
Valeant Pharmaceuticals						
International Inc	Equity	91911K102	6,443	138	138	0
Valero Energy Corp	Equity	91913Y100	12,630	600	600	0
Vanguard Short-Term Bond ETF	Equity	921937827	1,802,732	22,300	18,100	4,200
Vanguard GNMA Fd Admiral Shs	Equity	922031794	7,241,670	654,171	562,072	92,099
Vanguard International Equity						
Index Fd	Equity	922042775	7,930	200	200	0
Vanguard Emerging Markets ETF	Equity	922042858	165,258	4,325	4,325	0
Vanguard Consumer Staples ETF	Equity	92204A207	40,735	500	500	0
Vanguard Financials ETF	Equity	92204A405	678,069	24,550	18,200	6,350
Vanguard Health Care ETF	Equity	92204A504	30,605	500	500	0
Vanguard Industrials ETF	Equity	92204A603	273,192	4,400	0	4,400
Vanguard Utilities ETF	Equity	92204A876	370,994	4,825	4,225	600
Vanguard Short-Term Corp Bond						
ETF	Equity	92206C409	2,655,026	34,100	28,375	5,725
Vanguard REIT	Equity	922908553	5,800	100	100	0
Vanguard Small Cap Value ETF	Equity	922908611	12,534	200	200	0
Vanguard Mid-Cap	Equity	922908629	21,582	300	300	0
Verizon Communications Co	Equity	92343V104	2,611,210	65,085	49,650	15,435
Viacom Inc New Cl B	Equity	92553P201	11,353	250	250	0
Vodafone Group PLC New ADR	Equity	92857W209	8,325	297	0	297
WGL Holdings Inc	Equity	92924F106	17,688	400	400	0
Wal-Mart Stores Inc	Equity	931142103	1,664,316	27,850	21,250	6,600
Walgreen Co	Equity	931422109	208,278	6,300	5,900	400
Washington Real Est Inv Tr	Equity	939653101	10,940	400	400	0

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Waste Mgmt Inc	Equity	94106L109	3,271	100	100	0
Wellpoint Inc	Equity	94973V107	359,075	5,420	4,920	500
Wells Fargo & Co	Equity	949746101	578,677	20,997	18,157	2,840
Williams Cos	Equity	969457100	6,604	200	200	0
Windstream Corp	Equity	97381W104	29,350	2,500	1,300	1,200
Wisconsin Energy Corp	Equity	976657106	115,368	3,300	1,800	1,500
Yamana Gold Inc	Equity	98462Y100	5,876	400	0	400
Yum Brands Inc	Equity	988498101	5,901	100	0	100
Zimmer Holdings Inc	Equity	98956P102	21,368	400	400	0
Fractionals American International Group	Equity	ACG874152	0	41,619	10,790	30,829
American Foundation For The Blind, Inc	Equity	AMERICANF	5,000	1	1	0
American Printing House For The Blind	Equity	AMPRIN	7,500	2	2	0
National Federation Of The Blind	Equity	BLIND	5,000	1	1	0
Christian Appalachian Project	Equity	CAP	4,000	2	2	0
Capuchin Franciscans of the Prov of St Mary	Equity	CAPUCHIN	5,000	1	1	0
Cardinal Glennon Children's Hospital	Equity	CARD	20,000	4	4	0
Catholic Relief Svcs USCC	Equity	CATREL	20,000	4	4	0
The Catholic Church Extension Society	Equity	CCES	5,000	4	4	0
Claretian Fathers	Equity	CLAR	2,000	1	1	0
Columban Fathers	Equity	COLUM	2,000	2	2	0
Columban Fathers #2	Equity	COLUM2	1,000	1	1	0
Crosier Community	Equity	CROS	6,000	3	3	0
Deafness Research Foundation	Equity	DEAF	5,000	1	1	0
Deborah Hospital Foundation	Equity	DEBORAH	10,000	2	2	0
Divine Word Missionary #2	Equity	DWM2	5,000	5	5	0
Divine Word Missionary #3	Equity	DWM3	8,000	8	8	0
Divine Word Missionary #4	Equity	DWM4	9,000	7	7	0
Divine Word Missionary #5	Equity	DWM5	6,000	6	6	0
Divine Word Missionary #6	Equity	DWM6	8,000	8	8	0
Divine Word Missionary #7	Equity	DWM7	7,000	7	7	0
Divine Word Missionaries	Equity	DWMISS	2,000	1	1	0
US Series EE 05/84 05/01/14		EE0584	418	200	200	0
US Series EE 06/89 06/01/19		EE0689	1,541	1,000	1,000	0
The Seeing Eye, Inc	Equity	EYE	15,000	4	4	0
The Seeing Eye #2	Equity	EYE2	5,000	1	1	0
The Seeing Eye #3	Equity	EYE3	5,000	1	1	0
Fractional Marriott International	Equity	FHB903208	0	68,200	68,200	0
Friars Of The Atonement	Equity	FRIAR	2,000	2	2	0
The Franciscans St Anthonys Gld	Equity	FSAG	10,000	2	2	0
Ingersoll-Rand PLC	Equity	G47791101	14,930	490	490	0
Glenmary Home Missioners	Equity	GLEN	5,000	2	2	0
The Gospel Assoc - Blind	Equity	GOSPEL	4,000	3	3	0
Guiding Eyes For The Blind	Equity	GUID	5,000	1	1	0
Ace Ltd	Equity	H0023R105	14,024	200	200	0
Noble Corp	Equity	H5833N103	828,028	27,400	20,000	7,400
Transocean Switz Inc	Equity	H8817H100	2,649	69	69	0
US Series HH 01/03 1.500% 01/01/23		HH0103	2,500	2,500	2,500	0
US Series HH 05/99 1.500% 05/01/19		HH0519	65,000	65,000	65,000	0
The Humane Society of The United States	Equity	HSUS	5,000	1	1	0

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Jesuits of the Missouri Province	Equity	JESUITS	4,000	4	4	0
Legionaries Of Christ	Equity	LEGION	10,000	2	2	0
Lighthouse International	Equity	LIGHT	5,000	1	1	0
Maryknoll Annuity Contract	Equity	MAC	3,000	3	3	0
Missionary Assoc Of Mary Immaculate	Equity	MISS	5,000	1	1	0
Marianist Mission	Equity	MMAC	4,000	4	4	0
Missionary Oblates Of Mary Immaculate	Equity	MOMI	1,500	1	1	0
Norbertine Fathers	Equity	NORB	5,000	1	1	0
National Wildlife Federation	Equity	NWF	5,000	1	1	0
Global Environmental Energy Corp	Equity	P47725109	2	150	150	0
Prevent Blindness America	Equity	PBAM	10,000	2	2	0
Palm Beach Tan Inc		PBTI	0	5,000	5,000	0
The Roman Catholic Diocese of Syracuse	Equity	RCD	2,500	1	1	0
Salesian Missionaries	Equity	SALE	2,000	2	2	0
Sacred Heart League	Equity	SHL	4,000	3	3	0
Sacred Heart Monastery	Equity	SHM	3,000	3	3	0
St Lawrence Seminary	Equity	SLSAC	2,000	2	2	0
Society For The Propagation Of The Faith	Equity	SPFAA	4,000	3	3	0
St Joseph's Indian School	Equity	STJO	4,000	3	3	0
St Judes Children's Research Hospital	Equity	STJUDE	15,000	3	3	0
St Labre Indian School	Equity	STLABRE	8,500	3	3	0
University of St Thomas	Equity	USTHOMAS	20,000	4	4	0
World Wildlife Fund	Equity	WORLD	5,000	1	1	0
Philex Mining Corporation	Equity	Y68991135	706	1,502	0	1,502
			171,612,595	* * *	End Of Asset	389 Assets Report
					Report * * *	
					Page -1 of 1	

sp; On July 24, 2013, we sold our \$2.0 million investment in Carolina Beverage and realized a gain of



Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

\$45.0 thousand on this investment.

On July 26, 2013, we made a \$2.0 million follow-on senior secured debt investment in Spartan Energy Services, Inc. ("Spartan"), a leading provider of thru tubing and flow control services to oil and gas companies.

On July 26, 2013, we made a \$20.0 million follow-on secured second lien investment in Royal Adhesives & Sealants, LLC ("Royal"), a leading producer of proprietary, high-performance adhesives and sealants.

On July 31, 2013, we made a \$5.1 million follow-on investment in Coverall North America, Inc. ("Coverall"), a leading franchiser of commercial cleaning businesses.

On July 31, 2013, Royal repaid the \$28.4 million subordinated unsecured loan receivable to us.

On July 31, 2013, Cargo Airport Services USA, LLC ("Cargo") repaid the \$43.4 million loan receivable to us.

On August 1, 2013, Medical Security Card Company, LLC repaid the \$13.2 million loan receivable to us.

On August 2, 2013, we made an investment of \$44.1 million to purchase 90% of the subordinated notes in CIFC Funding 2013-III, Ltd.

Table of Contents

On August 2, 2013, we funded a recapitalization of CP Energy Services, Inc. ("CP Energy") with \$81.3 million of debt and \$12.7 million of equity financing. Through the recapitalization, we acquired a controlling interest in CP Energy for \$73.0 million in cash and 1,918,342 unregistered shares of our common stock. After the financing, we received repayment of the \$19.0 million loan previously outstanding.

On August 12, 2013, we provided \$80.0 million in senior secured loans and a senior secured revolving loan facility, of which \$70.0 million was funded at closing, for the recapitalization of Matrixx Initiatives, Inc., owner of Zicam, a leading developer and marketer of OTC cold remedy products under the Zicam brand.

On August 15, 2013, we made a \$14.0 million follow-on investment in Totes Isotoner Corporation ("Totes"), a leading designer, distributor and retailer of high quality, branded functional accessories.

***Debt Issuance***

During the period from July 1, 2013 to August 21, 2013, we issued \$58.6 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$57.3 million. In addition, we sold \$7.7 million in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$7.5 million with expected closing on August 22, 2013.

On August 23, 2013, we amended the selling agent agreement for the Prospect Capital InterNotes® to increase the aggregate principal amount of notes that may be issued from time to time under such agreement from \$500.0 million to \$1.0 billion.

***Common Stock Issuance***

During the period from July 1, 2013 to August 21, 2013, we sold 9,818,907 shares of our common stock at an average price of \$10.97 per share, and raised \$107.7 million of gross proceeds, under our at-the-market offering program, or the "ATM Program." Net proceeds were \$106.8 million after commissions to the broker-dealer on shares sold and offering costs.

***Other Matters***

On August 14, 2013, we announced the revised conversion rate on the 2018 Notes of 82.8631 shares of common stock per \$1,000 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07.

On August 15, 2013, we announced an increase of \$15.0 million to our commitments to our credit facility. The commitments to the credit facility now stand at \$567.5 million.

Table of Contents

**The Offering**

<b>Issuer</b>	Prospect Capital Corporation
<b>Purchasing Agent</b>	Incapital LLC
<b>Agents</b>	Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. From time to time, we may sell the notes to or through additional agents.
<b>Title of Notes</b>	Prospect Capital InterNotes®
<b>Amount</b>	We may issue notes from time to time in various offerings up to \$1.0 billion, the aggregate principal amount authorized by our board of directors for notes. As of August 22, 2013, \$430.1 million aggregate principal amount of notes has been issued. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act and the marginally more restrictive 175% asset coverage requirement under our credit facility.
<b>Denominations</b>	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
<b>Status</b>	The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
<b>Maturities</b>	Each note will mature 12 months or more from its date of original issuance.
<b>Interest</b>	Notes may be issued with a fixed or floating interest rate; a floating interest rate note will be based on the London Interbank Offered Rate ("LIBOR").  Interest on each fixed or floating interest rate note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repaid prior to its stated maturity in accordance with its terms.  Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months, often referred to as the 30/360 (ISDA) day count convention.
<b>Principal</b>	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
<b>Redemption and Repayment</b>	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.

Table of Contents

**Survivor's Option**

Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. If the pricing supplement for your notes provides for the Survivor's Option, your right to exercise the Survivor's Option will be subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes Survivor's Option."

**Sale and Clearance**

We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

**Trustee**

The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

**Selling Group**

The agents and dealers comprising the selling group are broker-dealers and securities firms. Each of the Purchasing Agent and Merrill Lynch, Pierce, Fenner & Smith Incorporated entered into a Second Amended and Restated Selling Agent Agreement with us dated March 4, 2013 (as amended, the "Selling Agent Agreement"). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. On April 15, 2013, Citigroup Global Markets Inc. entered into a joinder agreement to become a party to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at [info@incapital.com](mailto:info@incapital.com) for a list of selling group members.

Table of Contents**SELECTED CONDENSED FINANCIAL DATA**

You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 has been derived from the financial statements that were audited by our independent registered public accounting firm. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-31 for more information.

	<b>For the Year Ended June 30,</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands except data relating to shares, per share and number of portfolio companies)</b>				
<b>Performance Data:</b>					
Interest income	\$ 435,455	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926
Dividend income	82,705	64,881	15,092	15,366	22,793
Other income	58,176	36,493	19,930	12,675	14,762
<b>Total investment income</b>	<b>576,336</b>	<b>320,910</b>	<b>169,476</b>	<b>114,559</b>	<b>100,481</b>
Interest and credit facility expenses	(76,341)	(38,534)	(17,598)	(8,382)	(6,161)
Investment advisory expense	(151,031)	(82,507)	(46,051)	(30,727)	(26,705)
Other expenses	(24,040)	(13,185)	(11,606)	(8,260)	(8,452)
<b>Total expenses</b>	<b>(251,412)</b>	<b>(134,226)</b>	<b>(75,255)</b>	<b>(47,369)</b>	<b>(41,318)</b>
Net investment income	324,924	186,684	94,221	67,190	59,163
Realized and unrealized (losses) gains	(104,068)	4,220	24,017	(47,565)	(24,059)
Net increase in net assets from operations	\$ 220,856	\$ 190,904	\$ 118,238	\$ 19,625	\$ 35,104
<b>Per Share Data:</b>					
Net increase in net assets from operations(1)	\$ 1.07	\$ 1.67	\$ 1.38	\$ 0.33	\$ 1.11
Distributions declared per share	\$ (1.28)	\$ (1.22)	\$ (1.21)	\$ (1.33)	\$ (1.62)
Average weighted shares outstanding for the period	207,069,971	114,394,554	85,978,757	59,429,222	31,559,905
<b>Assets and Liabilities Data:</b>					
Investments	\$ 4,172,852	\$ 2,094,221	\$ 1,463,010	\$ 748,483	\$ 547,168
Other assets	275,365	161,033	86,307	84,212	119,857
<b>Total assets</b>	<b>4,448,217</b>	<b>2,255,254</b>	<b>1,549,317</b>	<b>832,695</b>	<b>667,025</b>
Amount drawn on credit facility	124,000	96,000	84,200	100,300	124,800
Senior convertible notes	847,500	447,500	322,500		
Senior unsecured notes	347,725	100,000			
InterNotes®	363,777	20,638			
Amount owed to related parties	6,690	8,571	7,918	9,300	6,713
Other liabilities	102,031	70,571	20,342	11,671	2,916
<b>Total liabilities</b>	<b>1,791,723</b>	<b>743,280</b>	<b>434,960</b>	<b>121,271</b>	<b>134,429</b>

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Net assets \$ 2,656,494 \$ 1,511,974 \$ 1,114,357 \$ 711,424 \$ 532,596

S-7

---

Table of Contents

	For the Year Ended June 30,				
	2013	2012	2011	2010	2009
	(in thousands except data relating to shares, per share and number of portfolio companies)				
<b>Investment Activity Data:</b>					
No. of portfolio companies at period end	124	85	72	58	30
Acquisitions	\$ 3,103,217	\$ 1,120,659	\$ 953,337	\$ 364,788(2)	\$ 98,305
Sales, repayments, and other disposals	\$ 931,534	\$ 500,952	\$ 285,562	\$ 136,221	\$ 27,007
Total return based on market value(3)	6.2%	27.2%	17.2%	17.7%	(18.6)%
Total return based on net asset value(3)	10.9%	18.0%	12.5%	(6.8)%	(0.6)%
Weighted average yield at end of period(4)	13.6%	13.9%	12.8%	16.2%	14.6%

- 
- (1) Per share data is based on average weighted shares for the period
- (2) Includes \$207,126 of acquired portfolio investments from Patriot Capital Funding, Inc.
- (3) Total return based on market value is based on the change in market price per share between the opening and ending market prices per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan. Total return based on net asset value is based upon the change in net asset value per share between the opening and ending net asset values per share in each period and assumes that dividends are reinvested in accordance with our dividend reinvestment plan.
- (4) Excludes equity investments and non-performing loans.

Table of Contents

**RISK FACTORS**

*Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.*

*You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.*

***Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.***

As of August 22, 2013, we and our subsidiary had no secured indebtedness outstanding and approximately \$1.625 billion of unsecured senior indebtedness outstanding.

The use of debt could have significant consequences on our future operations, including:

making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or amended senior credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including any notes sold, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the notes and our other debt.



Table of Contents

***The Investment Adviser's liability is limited under the Investment Advisory Agreement, and we are required to indemnify the Investment Adviser against certain liabilities, which may lead the Investment Adviser to act in a riskier manner on our behalf than it would when acting for its own account.***

The Investment Adviser has not assumed any responsibility to us other than to render the services described in the Investment Advisory Agreement, and it will not be responsible for any action of our Board of Directors in declining to follow the Investment Adviser's advice or recommendations. Pursuant to the Investment Advisory Agreement, the Investment Adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it will not be liable to us for their acts under the Investment Advisory Agreement, absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect the Investment Adviser and its members and their respective officers, managers, partners, agents, employees, controlling persons and members and any other person or entity affiliated with it with respect to all damages, liabilities, costs and expenses resulting from acts of the Investment Adviser not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the Investment Advisory Agreement. These protections may lead the Investment Adviser to act in a riskier manner when acting on our behalf than it would when acting for its own account.

***The Investment Adviser and Administrator have the right to resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our business, financial condition and results of operations.***

The Investment Adviser and Administrator have the right, under the Investment Advisory Agreement and Administration Agreement, respectively, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If the Investment Adviser or Administrator resigns, we may not be able to find a replacement or hire internal management or administration with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our business, financial condition and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities or our internal administration activities, as applicable, is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by the Investment Adviser and its affiliates or the Administrator and its affiliates. Even if we are able to retain comparable management or administration, whether internal or external, the integration of such management or administration and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our business, financial condition and results of operations.

***The notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.***

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without limitation, the \$150.0 million aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the \$167.5 million aggregate principal amount of 5.50% Convertible Senior Notes due 2016 (the "2016 Notes"), the \$130.0 million aggregate principal amount of 5.375% Convertible Senior Notes due 2017 (the "2017 Notes"), the \$200.0 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes"), the \$200.0 million aggregate principal amount of 5.875% Convertible Senior Notes due 2019 (the "2019 Notes"), the \$100.0 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes") and the \$250.0 million aggregate

Table of Contents

principal amount of 5.875% Senior Notes due 2023 (the "2023 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of August 22, 2013, we had no borrowings under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes and the 2023 Notes may be due prior to the notes. We do not currently know whether we will be able to replace any of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes or the 2023 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes, the 2019 Notes, the 2022 Notes or the 2023 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the notes and our ability to qualify as a regulated investment company, or "RIC."

***The indenture and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.***

The indenture and supplemental indentures (collectively, the "indenture") under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the notes. In particular, the terms of the indenture and the notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

Table of Contents

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the notes do not protect holders of the notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity other than certain limited restrictions on dividends and certain board structures or default provisions mandated by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes or negatively affecting the trading value of the notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the notes. See in the accompanying prospectus "Risk Factors Risks Relating to Our Business The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty" and " In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations." In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the notes.

***Our credit ratings may not reflect all risks of your investment in the notes.***

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes and our access to the capital markets. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

***We may choose to redeem notes when prevailing interest rates are relatively low.***

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

***Survivor's Option may be limited in amount.***

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the outstanding principal amount of all notes outstanding as of the end of the

Table of Contents

most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

***There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.***

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize our debt holding as an equity investment and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, we could become subject to a lender's liability claim, if, among other things, we actually render significant managerial assistance.

***We cannot assure that a trading market for your notes will ever develop or be maintained.***

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

the method of calculating the principal and interest for the notes;

the time remaining to the stated maturity of the notes;

the outstanding amount of the notes;

the redemption or repayment features of the notes; and

the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

***Changes in banks' inter-bank lending rate reporting practices or the method pursuant to which the LIBOR rates are determined may adversely affect the value of your floating rate notes.***

Beginning in 2008, concerns have been raised that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of daily LIBOR rates may have been under-reporting the inter-bank lending rate applicable to them in order to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may result from reporting higher inter-bank lending rates. Inquiries remain ongoing, including investigations by regulators and governmental authorities in various jurisdictions, and if such under-reporting occurred, it may have resulted in the LIBOR rate being artificially low. If any such under-reporting still exists and some or all of the member banks discontinue such practice, there may be a resulting sudden or prolonged upward movement in LIBOR rates. In addition, in August 2008 the BBA announced that it was changing the LIBOR rate-fixing process by increasing the number of banks surveyed to set the LIBOR rate. The BBA has taken steps intended to strengthen the oversight of the process and review biannually the composition of the panels of banks surveyed to set the LIBOR rate. In addition, the final report of the Wheatley Review of LIBOR, published in September 2012, set forth recommendations relating to the setting and administration of LIBOR, and the UK government has announced that it intends to incorporate these recommendations in new legislation. At the present time

Table of Contents

it is uncertain what changes, if any, may be made by the UK government or other governmental or regulatory authorities in the method for determining LIBOR or whether these changes would cause any decrease or increase in LIBOR rates. Any changes in the method pursuant to which the LIBOR rates are determined, or the development of a widespread market view that LIBOR rates have been or are being manipulated by members of the bank panel, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of the floating rate notes may be adversely affected. If your floating rate notes are subject to a maximum rate specified in your pricing supplement, you may not benefit from any such increase in LIBOR rates because the interest on your floating rate notes will be subject to the maximum rate. As a result, the amount of interest payable for your floating rate notes may be significantly less than it would have been had you invested in a similar investment instrument not subject to such a maximum interest rate.

***Our portfolio companies may be highly leveraged.***

Some of our portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to us as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

***Your investment in the floating rate notes will involve certain risks not associated with an investment in conventional debt securities. You should consider carefully the following discussion of risks before you decide that an investment in the floating rate notes is suitable for you.***

Floating rate notes present different investment considerations than fixed rate notes. For notes with only floating rates, the rate of interest paid by us on the notes for each applicable interest period is not fixed, but will vary depending on LIBOR and accordingly could be substantially less than the rates of interest we would pay on fixed rate notes of the same maturity. Additionally, the notes may change the interest rate or interest rate formula in relation to LIBOR at one or more points during the term of such notes (often referred to as a "step up" feature) or may switch from floating to fixed rate or from a fixed to a floating rate during the term of the notes. Consequently, the return on the notes may be less than returns otherwise payable on fixed rate debt securities issued by us with similar maturities whose interest rates cannot change. The variable interest rate on the notes, while determined, in part, by reference to LIBOR, may not actually pay at such rates. Furthermore, we have no control over any fluctuations in LIBOR.

If the relevant pricing supplement specifies a maximum rate, the interest rate for any interest period will be limited by the maximum rate. The maximum rate will limit the amount of interest you may receive for each such interest period, even if the fixed or floating rate component, as adjusted by any spread factor, if applicable, and/or a spread, if applicable, would have otherwise resulted in an interest rate greater than the maximum rate. As a result, if the interest rate for any interest period without taking into consideration the maximum rate would have been greater than the maximum rate, the notes will provide you less interest income than an investment in a similar instrument that is not subject to a maximum interest rate.

***Our investments in CLOs may be riskier and less transparent to us and our stockholders than direct investments in the underlying companies.***

We invest in CLOs. Generally, there may be less information available to us regarding the underlying debt investments held by CLOs than if we had invested directly in the debt of the

Table of Contents

underlying companies. As a result, our stockholders will not know the details of the underlying securities of the CLOs in which we will invest. Our CLO investments are subject to the risk of leverage associated with the debt issued by such CLOs and the repayment priority of senior debt holders in such CLOs. Our investments in portfolio companies may be risky, and we could lose all or part of our investment.

***CLOs typically will have no significant assets other than their underlying Senior Secured Loans; payments on CLO investments are and will be payable solely from the cashflows from such Senior Secured Loans.***

CLOs typically will have no significant assets other than their underlying Senior Secured Loans. Accordingly, payments on CLO investments are and will be payable solely from the cashflows from such Senior Secured Loans, net of all management fees and other expenses. Payments to us as a holder of CLO junior securities are and will be made only after payments due on the senior secured notes, and, where appropriate, the junior secured notes, have been made in full. This means that relatively small numbers of defaults of Senior Secured Loans may adversely impact our returns.

***Our CLO investments are exposed to leveraged credit risk.***

Generally, we are in a subordinated position with respect to realized losses on the Senior Secured Loans underlying our investments in CLOs. The leveraged nature of CLOs, in particular, magnifies the adverse impact of Senior Secured Loan defaults. CLO investments represent a leveraged investment with respect to the underlying Senior Secured Loans. Therefore, changes in the market value of the CLO investments could be greater than the change in the market value of the underlying Senior Secured Loans, which are subject to credit, liquidity and interest rate risk.

***There is the potential for interruption and deferral of cashflow from CLO investments.***

If certain minimum collateral value ratios and/or interest coverage ratios are not met by a CLO, primarily due to Senior Secured Loan defaults, then cashflow that otherwise would have been available to pay distributions to us on our CLO investments may instead be used to redeem any senior notes or to purchase additional Senior Secured Loans, until the ratios again exceed the minimum required levels or any senior notes are repaid in full. This could result in an elimination, reduction or deferral in the distribution and/or principal paid to the holders of the CLO investments, which would adversely impact our returns.

***Investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

Our CLO investment strategy involves investments in foreign CLOs. Investing in foreign entities may expose us to additional risks not typically associated with investing in U.S. issuers. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Further, we, and the CLOs in which we invest, may have difficulty enforcing creditor's rights in foreign jurisdictions. In addition, the underlying companies of the CLOs in which we invest may be foreign, which may create greater exposure for us to foreign economic developments.

Table of Contents

***The payment of underlying portfolio manager fees and other charges on CLO investments could adversely impact our returns.***

We may invest in CLO investments where the underlying portfolio securities may be subject to management, administration and incentive or performance fees, in addition to those payable by us. Payment of such additional fees could adversely impact the returns we achieve.

***The inability of a CLO collateral manager to reinvest the proceeds of the prepayment of senior secured loans may adversely affect us.***

There can be no assurance that for any CLO investment, in the event that any of the senior secured loans of a CLO underlying such investment are prepaid, the CLO collateral manager will be able to reinvest such proceeds in new Senior Secured Loans with equivalent investment returns. If the CLO collateral manager cannot reinvest in new Senior Secured Loans with equivalent investment returns, the interest proceeds available to pay interest on the rated liabilities and investments may be adversely affected.

***Our CLO investments are subject to prepayments and calls, increasing re-investment risk.***

Our CLO investments and/or the underlying senior secured loans may prepay more quickly than expected, which could have an adverse impact on our value. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond our control and consequently cannot be predicted with certainty. In addition, for a CLO collateral manager there is often a strong incentive to refinance well performing portfolios once the senior tranches amortize. The yield to maturity of the investments will depend on the amount and timing of payments of principal on the loans and the price paid for the investments. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments of the debt.

Furthermore, our CLO investments generally do not contain optional call provisions, other than a call at the option of the holders of the equity tranches for the senior notes and the junior secured notes to be paid in full after the expiration of an initial period in the deal (referred to as the "non-call period").

The exercise of the call option is by the relevant percentage (usually a majority) of the holders of the equity tranches and, therefore, where we do not hold the relevant percentage we will not be able to control the timing of the exercise of the call option. The equity tranches also generally have a call at any time based on certain tax event triggers. In any event, the call can only be exercised by the holders of equity tranches if they can demonstrate (in accordance with the detailed provisions in the transaction) that the senior notes and junior secured notes will be paid in full if the call is exercised.

Early prepayments and/or the exercise of a call option other than at our request may also give rise to increased re-investment risk with respect to certain investments, as we may realize excess cash earlier than expected. If we are unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the investment repaid, this may reduce our net income and, consequently, could have an adverse impact on our ability to pay dividends.

***We have limited control of the administration and amendment of Senior Secured Loans owned by the CLOs in which we invest.***

We are not able to directly enforce any rights and remedies in the event of a default of a Senior Secured Loan held by a CLO vehicle. In addition, the terms and conditions of the Senior Secured Loans underlying our CLO investments may be amended, modified or waived only by the agreement of the underlying lenders. Generally, any such agreement must include a majority or a super majority (measured by outstanding loans or commitments) or, in certain circumstances, a unanimous vote of the

Table of Contents

lenders. Consequently, the terms and conditions of the payment obligations arising from Senior Secured Loans could be modified, amended or waived in a manner contrary to our preferences.

***We have limited control of the administration and amendment of any CLO in which we invest.***

The terms and conditions of target securities may be amended, modified or waived only by the agreement of the underlying security holders. Generally, any such agreement must include a majority or a super majority (measured by outstanding amounts) or, in certain circumstances, a unanimous vote of the security holders. Consequently, the terms and conditions of the payment obligation arising from the CLOs in which we invest be modified, amended or waived in a manner contrary to our preferences.

***Senior Secured Loans of CLOs may be sold and replaced resulting in a loss to us.***

The Senior Secured Loans underlying our CLO investments may be sold and replacement collateral purchased within the parameters set out in the relevant CLO indenture between the CLO and the CLO trustee and those parameters may typically only be amended, modified or waived by the agreement of a majority of the holders of the senior notes and/or the junior secured notes and/or the equity tranche once the CLO has been established. If these transactions result in a net loss, the magnitude of the loss from the perspective of the equity tranche would be increased by the leveraged nature of the investment.

***Our financial results may be affected adversely if one or more of our significant equity or junior debt investments in a CLO vehicle defaults on its payment obligations or fails to perform as we expect.***

We expect that a majority of our portfolio will consist of equity and junior debt investments in CLOs, which involve a number of significant risks. CLOs are typically highly levered up to approximately 10 times, and therefore the junior debt and equity tranches that we will invest in are subject to a higher risk of total loss. In particular, investors in CLOs indirectly bear risks of the underlying debt investments held by such CLOs. We will generally have the right to receive payments only from the CLOs, and will generally not have direct rights against the underlying borrowers or the entities that sponsored the CLOs. Although it is difficult to predict whether the prices of indices and securities underlying CLOs will rise or fall, these prices, and, therefore, the prices of the CLOs will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally.

The investments we make in CLOs are thinly traded or have only a limited trading market. CLO investments are typically privately offered and sold, in the primary and secondary markets. As a result, investments in CLOs may be characterized as illiquid securities. In addition to the general risks associated with investing in debt securities, CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from the underlying Senior Secured Loans will not be adequate to make interest or other payments; (ii) the quality of the underlying Senior Secured Loans may decline in value or default; and (iii) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the CLO or unexpected investment results. Further, our investments in equity and junior debt tranches of CLOs are subordinate to the senior debt tranches thereof.

Investments in structured vehicles, including equity and junior debt instruments issued by CLOs, involve risks, including credit risk and market risk. Changes in interest rates and credit quality may cause significant price fluctuations. Additionally, changes in the underlying Senior Secured Loans held by a CLO may cause payments on the instruments we hold to be reduced, either temporarily or permanently. Structured investments, particularly the subordinated interests in which we invest, are less liquid than many other types of securities and may be more volatile than the Senior Secured Loans underlying the CLOs in which we invest.



Table of Contents

***Non-investment grade debt involves a greater risk of default and higher price volatility than investment grade debt.***

The Senior Secured Loans underlying our CLO investments typically are BB or B rated (non-investment grade) and in limited circumstances, unrated, Senior Secured Loans. Non-investment grade securities are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal when due and therefore involve a greater risk of default and higher price volatility than investment grade debt.

***We will have no influence on management of underlying investments managed by non-affiliated third party CLO collateral managers.***

We are not responsible for and have no influence over the asset management of the portfolios underlying the CLO investments we hold as those portfolios are managed by non-affiliated third party CLO collateral managers. Similarly, we are not responsible for and have no influence over the day-to-day management, administration or any other aspect of the issuers of the individual securities. As a result, the values of the portfolios underlying our CLO investments could decrease as a result of decisions made by third party CLO collateral managers.

***Holders of any preferred stock we might issue would have the right to elect members of the Board of Directors and class voting rights on certain matters.***

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of the Board of Directors, at all times, and in the event dividends become two full years in arrears, would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies or the terms of our credit facilities, might impair our ability to maintain our qualification as a registered investment company for U.S. federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a registered investment company, there can be no assurance that such actions could be effected in time to meet the tax requirements.

Table of Contents

**DESCRIPTION OF NOTES**

*The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading "Description of Our Debt Securities" in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.*

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the notes from time to time, up to an aggregate principal amount of \$1.0 billion. As of August 22, 2013, \$430.1 million aggregate principal amount of notes has been issued.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;

the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least 12 months from its date of original issuance;

each note may be issued with a fixed or floating interest rate; any floating interest rate will be based on LIBOR;

the notes will not be subject to any sinking fund; and

the minimum denomination of the notes will be \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including but not limited to:

the stated maturity;

the denomination of your notes;

the price at which we originally issue your notes, expressed as a percentage of the principal amount, and the original issue date;

whether your notes are fixed rate notes or floating rate notes;



Table of Contents

if your notes are fixed rate notes, the annual rate at which your notes will bear interest, or the periodic rates in the case of notes that bear different rates at different times during the term of the notes, and the interest payment dates, if different from those stated below under " Interest Rates Fixed Rate Notes;"

if your notes are floating rate notes, the interest rate, spread or spread multiplier or initial base rate, maximum rate and/or minimum rate; if there is more than one spread to be applied at different times during the term of the notes for your interest rate, which spread during which periods applies to your notes; and the interest reset, determination, calculation and payment dates, all of which we describe under " Interest Rates Floating Rate Notes" below;

if applicable, the circumstances under which your notes may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s), all of which we describe under " Redemption and Repayment" below;

whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under " Survivor's Option;"

any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and

any other significant terms of your notes, which could be different from those described in this prospectus supplement and the accompanying prospectus, but in no event inconsistent with the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

**Types of Notes**

We may issue either of the two types of notes described below. Notes may have elements of each of the two types of notes described below. For example, notes may bear interest at a fixed rate for some periods and at a floating rate in others.

**Fixed Rate Notes.** Notes of this type will bear interest at one or more fixed rates described in your pricing supplement.

Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed rate or rates per annum stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention) unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under " Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

**Floating Rate Notes.** Notes of this type will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding

Table of Contents

or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. The various interest rate formulas and these other features are described below in " Interest Rates Floating Rate Notes." If your notes are floating rate notes, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Floating rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of floating rate notes at a rate per annum determined according to the interest rate formula stated in your pricing supplement during the applicable interest rate periods as stated in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below " Payments of Principal and Interest." Notes may be offered that switch from a fixed rate to a floating rate or from a floating rate to a fixed rate during the term of the notes.

**Interest Rates**

This subsection describes the different kinds of interest rates that may apply to your notes, as specified in your pricing supplement.

**Fixed Rate Notes.** Fixed rate notes will bear interest from their original issue date or from the most recent date to which interest on the notes has been paid or made available for payment. Interest will accrue on the principal of fixed rate notes at the fixed yearly rate or rates stated in your pricing supplement during the applicable time periods as stated in your pricing supplement, until the principal is paid or made available for payment. Your pricing supplement will describe the interest periods and relevant interest payment dates on which interest on fixed rate notes will be payable. Each payment of interest due on an interest payment date or the maturity will include interest accrued from and including the last date to which interest has been paid, or made available for payment, or from the issue date if none has been paid or made available for payment, to but excluding the interest payment date or the maturity. We will compute interest on fixed rate notes on the basis of a 360-day year of twelve 30-day months (the 30/360 (ISDA) day count convention), unless your pricing supplement provides that we will compute interest on a different basis. We will pay interest on each interest payment date and at maturity as described below under " Payments of Principal and Interest."

**Floating Rate Notes.** Floating rate notes will bear interest at rates that are determined by reference to an interest rate formula based on LIBOR. In some cases, the rates may also be adjusted by adding or subtracting a spread in relation to LIBOR or multiplying by a spread multiplier and may be subject to a minimum rate and/or a maximum rate. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in your pricing supplement.

Each floating rate note will bear interest from its original issue date or from the most recent date to which interest on the note has been paid or made available for payment. Interest will accrue on the principal of a floating rate note at a rate per annum determined according to the interest rate formula stated in the pricing supplement during the applicable interest rate period specified in your pricing supplement, until the principal is paid or made available for payment. We will pay interest on each interest payment date and at maturity as described below under " Payment of Principal and Interest."

In addition, the following will apply to floating rate notes.

Table of Contents

**Initial Base Rate**

Unless otherwise specified in your pricing supplement, for floating rate notes, the initial base rate will be the applicable LIBOR base rate in effect from and including the original issue date to but excluding the initial interest reset date. We will specify the initial LIBOR base rate in your pricing supplement.

**Spread or Spread Multiplier**

In some cases, the base rate for floating rate notes may be adjusted:

by adding or subtracting a specified number of basis points, called the spread, with one basis point being 0.01%; or

by multiplying the base rate by a specified percentage, called the spread multiplier.

If you purchase floating rate notes, your pricing supplement will specify whether a spread or spread multiplier will apply to your notes and, if so, the amount of the applicable spread or spread multiplier and any increases or decreases in the spread or spread multiplier during the term of your notes.

**Maximum and Minimum Rates**

The actual interest rate, after being adjusted by the spread or spread multiplier, may also be subject to either or both of the following limits:

a maximum rate *i.e.*, a specified upper limit that the actual interest rate in effect at any time may not exceed; and/or

a minimum rate *i.e.*, a specified lower limit that the actual interest rate in effect at any time may not fall below.

If you purchase floating rate notes, your pricing supplement will specify whether a maximum rate and/or minimum rate will apply to your notes and, if so, what those rates are.

Whether or not a maximum rate applies, the interest rate on floating rate notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than \$250,000 is 16% and for any loan in the amount of \$250,000 or more but less than \$2,500,000 is 25%, per year on a simple interest basis. These limits do not apply to loans of \$2,500,000 or more.

The rest of this subsection describes how the interest rate and the interest payment dates will be determined, and how interest will be calculated, on floating rate notes.

**Interest Reset Dates**

Except as otherwise specified in your pricing supplement, the rate of interest on floating rate notes will be reset, by the calculation agent described below, daily, weekly, monthly, quarterly, semi-annually or annually (each, an "interest reset period"). The date on which the interest rate resets and the reset rate becomes effective is called the interest reset date. Except as otherwise specified in your pricing supplement, the interest reset date will be as follows:

for floating rate notes that reset daily, each London business day (as defined below);

for floating rate notes that reset weekly, the Wednesday of each week;

for floating rate notes that reset monthly, the third Wednesday of each month;



Table of Contents

for floating rate notes that reset quarterly, the third Wednesday of each of four months of each year as specified in your pricing supplement;

for floating rate notes that reset semi-annually, the third Wednesday of each of two months of each year as specified in your pricing supplement; and

for floating rate notes that reset annually, the third Wednesday of one month of each year as specified in your pricing supplement.

For floating rate notes, the interest rate in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day. There are several exceptions, however, to the reset provisions described above.

Interest reset dates are subject to adjustment, as described below under " Business Day Conventions."

The base rate in effect from and including the original issue date to but excluding the first interest reset date will be the initial base rate. For floating rate notes that reset daily or weekly, the base rate in effect for each day following the fifth business day before an interest payment date to, but excluding, the interest payment date, and for each day following the fifth business day before the maturity to, but excluding, the maturity, will be the base rate in effect on that fifth business day.

**Interest Determination Dates**

The interest rate that takes effect on an interest reset date will be determined by the calculation agent for the LIBOR base rates by reference to a particular date called an interest determination date. Except as otherwise specified in your pricing supplement, the interest determination date relating to a particular interest reset date will be the second London business day preceding the interest reset date. We refer to an interest determination date for LIBOR notes as a LIBOR interest determination date.

**Interest Calculation Date**

The interest rate that takes effect on a particular interest reset date will be determined by reference to the corresponding interest determination date or interest reset date, as applicable. For some notes, however, the calculation agent will set the rate on a day no later than the corresponding interest calculation date. Unless otherwise specified in your pricing supplement, the interest calculation date for rates to which a calculation date applies will be the business day immediately preceding the date on which interest will next be paid (on an interest payment date or the maturity, as the case may be). The calculation agent need not wait until the relevant interest calculation date to determine the interest rate if the rate information it needs to make the determination is available from the relevant sources sooner.

**Interest Rate Calculations**

Interest payable on floating rate notes for any particular interest period will be calculated as described below using an interest factor, expressed as a decimal, applicable to each day during the applicable interest period, unless otherwise specified in your pricing supplement.

Calculations relating to floating rate notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We have initially appointed U.S. Bank National Association as our calculation agent for any floating rate notes. We may specify a different calculation agent in your pricing supplement. The applicable pricing supplement for your floating rate note will name the institution that we have appointed to act as the calculation agent for that note as of its original issue date. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of your floating rate note without your consent and without notifying you of the



Table of Contents

change. Absent manifest error, all determinations of the calculation agent will be final and binding on you and us, without any liability on the part of the calculation agent.

For floating rate notes, the calculation agent will determine, on the corresponding interest calculation date or interest determination date, as described below, the interest rate that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period *i.e.*, the period from and including the original issue date, or the last date to which interest has accrued (which may be the interest payment date or any interest reset date in accordance with the business day convention), to but excluding the next date to which interest will accrue (which may be the interest payment date or any interest reset date in accordance with the business day convention). For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the floating rate note by an accrued interest factor for the interest period. Such accrued interest rate factor is determined by multiplying the applicable interest rate for the period by the day count fraction. The day count fraction will be determined in accordance with the 30/360 (ISDA) day count convention, where the number of days in the interest period in respect of which payment is being made is divided by 360, calculated on a formula basis as follows:

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the interest period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the interest period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the interest period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the interest period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the interest period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30.

Upon the request of the holder of any floating rate note, the calculation agent will provide the interest rate then in effect, and, if determined, the interest rate that will become effective on the next interest reset date with respect to such floating rate note.

All percentages resulting from any calculation relating to any note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point, *e.g.*, 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655). All amounts used in or resulting from any calculation relating to any note will be rounded upward or downward to the nearest cent.

Table of Contents

**Sources and Corrections**

If we refer to a rate as set forth on a display page, other published source, information vendor or other vendor officially designated by the sponsor of that rate, if there is a successor source for the display page, other published source, information vendor or other official vendor, we refer to that successor source as applicable as determined by the calculation agent. When we refer to a particular heading or headings on any of those sources, those references include any successor or replacement heading or headings as determined by the calculation agent.

If the applicable rate is based on information obtained from a Reuters screen, that rate will be subject to the corrections, if any, published on that Reuters screen within one hour of the time that rate was first displayed on such source.

**LIBOR Calculation**

LIBOR, with respect to the base rate and any interest reset date, will be the London interbank offered rate for deposits in U.S. dollars for the index maturity specified in your pricing supplement, appearing on the Reuters screen LIBOR page as of approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date.

If the rate described above does not so appear on the Reuters screen LIBOR page, then LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market selected by the calculation agent at approximately 11:00 A.M., London time, on the relevant LIBOR interest determination date, to prime banks in the London interbank market for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these major banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the quotations.

If fewer than two of the requested quotations described above are provided, LIBOR for the relevant interest reset date will be the arithmetic mean of the rates quoted by major banks in New York City selected by the calculation agent, at approximately 11:00 A.M., New York City time (or the time in the relevant principal financial center), on the relevant interest reset date, for loans in U.S. dollars (or the index currency) to leading European banks for a period of the specified index maturity, beginning on the relevant interest reset date, and in a representative amount.

If no quotation is provided as described in the preceding paragraph, then the calculation agent, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for that interest reset date in its sole discretion.

For the purpose of this section, we define the term "index maturity" as the interest rate period of LIBOR on which the interest rate formula is based as specified in your pricing supplement.

In all cases, if the stated maturity or any earlier redemption date or repayment date with respect to any note falls on a day that is not a business day, any payment of principal, premium, if any, and interest otherwise due on such day will be made on the next succeeding business day, and no interest on such payment shall accrue for the period from and after such stated maturity, redemption date or repayment date, as the case may be.

Table of Contents

**Business Days**

The term "London business day" will apply to your floating rate notes, as specified in your pricing supplement, and it means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in London generally are authorized or obligated by law, regulation or executive order to close and is also a day on which dealings in the applicable index currency are transacted in the London interbank market.

**Business Day Convention**

The business day convention that will apply to your notes is the "following business day convention." The "following business day convention" means, for any interest payment date or interest reset date, other than the maturity, if such date would otherwise fall on a day that is not a business day, then such date will be postponed to the next day that is a business day.

**Payment of Principal and Interest**

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as "DTC") and its participants as described under "Registration and Settlement The Depository Trust Company." Payments in respect of any notes in certificated form will be made as described under "Registration and Settlement Registration, Transfer and Payment of Certificated Notes."

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note's stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note's stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

**Payment and Record Dates for Interest**

Interest on the notes will be paid as follows:

<b>Interest Payment Frequency</b>	<b>Interest Payment Dates</b>
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note's stated maturity date or date of earlier redemption or repayment will be that particular date. For

Table of Contents

the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M., New York City time, on that day.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

"Business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

**Redemption and Repayment**

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days' written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See "Registration and Settlement."

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder's duly authorized representative through exercise of the Survivor's Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

Table of Contents

**Survivor's Option**

The "Survivor's Option" is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor's Option applies to those notes.

If a note is entitled to a Survivor's Option, upon the valid exercise of the Survivor's Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner's interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor's Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder's spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder's spouse will be deemed the death of a beneficial owner only with respect to such deceased person's interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor's Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2013, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

October 15, 2013, because the September 15, 2013 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;

appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;

if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;

written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

if applicable, a properly executed assignment or endorsement;

tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and

any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such

Table of Contents

beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement."

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

Table of Contents

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*(All figures in this item are in thousands except share, per share and other data)*

References herein to "we," "us" or "our" refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations. Any discussion relating to specific investments or portfolio loans herein should be read in conjunction with endnote 3 to the Consolidated Schedule of Investments included in our financial statements in order to determine whether all or any portion of such investment or loan is owned by our wholly-owned bankruptcy remote special purpose subsidiary, Prospect Capital Funding LLC and, accordingly, held as collateral for the revolving credit facility.

**Overview**

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We currently have seven origination strategies in which we make investments: (1) lending in private equity sponsored transactions, (2) lending directly to companies not owned by private equity firms, (3) control investments in corporate operating companies, (4) control investments in financial companies, (5) investments in structured credit, (6) real estate investments, and (7) investments in syndicated debt. We continue to evaluate other origination strategies in the ordinary course of business with no specific tops-down allocation to any single origination strategy.

**Lending in Private Equity Sponsored Transactions** We make loans to companies which are controlled by leading private equity firms. This debt can take the form of first lien, second lien, unitranche or mezzanine loans. In making these investments, we look for a diversified customer base, recurring demand for the product or service, barriers to entry, strong historical cash flow and experienced management teams. These loans typically have significant equity subordinate to our loan position. This strategy has represented approximately 50%-60% of our business.

**Lending Directly to Companies** We provide debt financing to companies owned by non-private equity firms, the company founder, a management team or a family. Here, in addition to the strengths we look for in a sponsored transaction, we also look for the alignment with the management team with significant invested capital. This strategy often has less competition than the private equity sponsor strategy because such company financing needs are not easily addressed by banks and often require more diligence preparation. Direct lending can result in higher returns and lower leverage than sponsor transactions and may include warrants or equity to us. This strategy generally has comprised approximately 10%-15% of our business.

**Control Investments in Corporate Operating Companies** This strategy involves acquiring controlling stakes in non-financial operating companies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. We provide certainty of closure to our counterparties, give the seller personal liquidity and generally look for management to continue on in their current roles. This strategy has comprised approximately 10%-15% of our business.



Table of Contents

**Control Investments in Financial Companies** This strategy involves acquiring controlling stakes in financial companies, including consumer direct lending, subprime auto lending and other strategies. Our investments in these companies are generally structured as a combination of yield-producing debt and equity. These investments are often structured in a tax-efficient RIC-compliant partnership, enhancing returns. This strategy has comprised approximately 10%-15% of our business.

**Investments in Structured Credit** We make investments in CLOs, generally taking a significant position in the subordinated interests (equity) of the CLOs. The CLOs include a diversified portfolio of broadly syndicated loans and do not have direct exposure to real estate, mortgages, sub-prime debt, or consumer based debt. The CLOs in which we invest are managed by top-tier collateral managers that have been thoroughly diligenced prior to investment. This strategy has represented 10%-20% of the portfolio.

**Real Estate Investments** We make investments in real estate through our wholly-owned tax-efficient REIT, APHC. Our real estate investments are in various classes of fully developed and occupied real estate properties that generate current yields. We seek to identify properties that have historically high occupancy and steady cash flow generation. We partner with established property managers with experience in managing the property type to manage such properties after acquisition. This is a more recent investment strategy that has represented less than 5% of our business.

**Investments in Syndicated Debt** On an opportunistic basis, we make investments in loans and high yield bonds that have been sold to a syndicate of buyers. Here we look for investments with attractive risk-adjusted returns after we have completed a fundamental credit analysis. These investments are purchased with a long term, buy-and-hold outlook and we look to provide significant structuring input by providing anchoring orders. This strategy has represented approximately 5%-10% of the portfolio.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in CLOs are subordinated to senior loans and are generally unsecured. We invest in debt and equity positions of CLOs which are a form of securitization in which the cash flows of a portfolio of loans are pooled and passed on to different classes of owners in various tranches. Our CLO investments are derived from portfolios of corporate debt securities which are generally risk rated from BB to B depending on the tranche.

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$4,172,852 and \$2,094,221 as of June 30, 2013 and June 30, 2012, respectively. During the year ended June 30, 2013, our net cost of investments increased by \$2,156,465, or 102.7%, as a result of 68 new investments, 25 follow-on investments and several revolver advances of \$3,043,531, accrued of payment-in-kind interest of \$10,947, structuring fees of \$52,699 and amortization of discounts and premiums of \$11,016, while we received full repayment on 23 investments, sold ten investments, impaired one investment, and received several partial prepayments, amortization payments and a revolver repayment, totaling \$931,534.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by \$1,144,520, or 75.7% during the year ended June 30, 2013, from \$1,511,974 to \$2,656,494. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$1,179,084, dividend reinvestments of \$16,087, and \$220,856 from operations. These increases, in turn, were offset by \$271,507 in dividend distributions to our stockholders. The \$220,856 increase in net assets resulting from operations is net of the following: net investment income of \$324,924, net realized loss on investments of \$26,234, and a decrease in net assets due to changes in net unrealized depreciation of investments of \$77,834.

Table of Contents

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

**Fourth Quarter Highlights**

*Investment Transactions*

On April 1, 2013, we refinanced our existing \$18,635 of subordinated loans to Ajax Rolled Ring & Machine, Inc. ("Ajax"), increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 subordinated loans that were previously outstanding. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17, 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and NPI receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the NPI agreement which was recognized as other income during the fiscal year ended June 30, 2013.

On April 17, 2013, we made an investment of \$43,650 to purchase 97% of the subordinated notes in Mountain View CLO 2013-I Ltd. ("Mountain View").

On April 22, 2013, we provided \$34,375 of senior secured financing, of which \$31,875 was funded at closing, to support the acquisition of Pegasus Business Intelligence, LP ("Pegasus"), the world's largest processor of commissions paid by hotels to travel agencies for room booking services. The \$15,938 Term Loan A note bears interest in cash at the greater of 6.75% or Libor plus 5.5% and has a final maturity of April 18, 2018. The \$15,938 Term Loan B note bears interest in cash at the greater of 13.75% or Libor plus 12.5% and has a final maturity of April 18, 2018. The \$2,500 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of April 18, 2014.

On April 25, 2013, we made an investment of \$26,000 to purchase 50.9% of the subordinated notes in Brookside Mill CLO Ltd. ("Brookside").

On April 30, 2013, we made a \$21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, multi-family residential properties located in Florida. We invested \$3,247 of equity and \$18,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On April 30, 2013, we sold our investment in Fischbein, LLC ("Fischbein") for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain if and when received.

On May 8, 2013, we made a \$6,119 follow-on investment in APH, to acquire Arlington Park, a multi-family residential property located in Marietta, Georgia. We invested \$2,119 of equity and \$4,000

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On May 9, 2013, we provided a \$55,000 senior secured credit facility to support the recapitalization of Sandow Media, LLC ("Sandow"), a provider of multimedia content and services to businesses and consumers focused on the areas of design and luxury. The senior secured first lien loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 1.5% and has a final maturity of May 8, 2018.

On May 10, 2013, we provided \$150,000 of secured second lien financing to support the recapitalization of Arctic Glacier, Inc. ("Arctic Glacier"), a leading producer, marketer, and distributor of high-quality packaged ice to consumers in the United States and Canada. After the financing, we received repayment of \$86,982 of subordinated unsecured term loan previously outstanding. The senior secured second lien loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of November 10, 2019.

On May 14, 2013, we provided \$4,000 of senior secured financing to SourceHOV, LLC ("SourceHOV"), a leading provider of business and knowledge process outsourcing. The second lien term loan bears interest in cash at the greater of 8.75% or Libor plus 7.5% and has a final maturity of April 30, 2019. On June 13, 2013, we sold our \$4,000 investment in SourceHOV and realized a gain of \$40 on this investment.

On May 16, 2013, Out Rage, LLC ("Out Rage") repaid the \$11,836 loan receivable to us.

On May 23, 2013, Snacks Holding Corporation ("Snacks Holding") repaid the \$15,366 loan receivable to us.

On May 31, 2013, we made a follow-on secured second lien debt investment of \$7,190 in Injured Workers Pharmacy LLC ("IWP"), a specialty pharmacy services company. The secured second lien loan bears interest in cash at the greater of 11.5% or Libor plus 7.0% and interest payment in kind of 1.0% and has a final maturity of May 31, 2019.

On June 3, 2013, Nobel Learning Communities, Inc. ("Nobel") repaid the \$15,262 loan receivable to us.

On June 4, 2013, Springs Window Fashions, LLC ("Springs") repaid the \$35,000 loan receivable to us.

On June 11, 2013, we provided \$115,000 of senior secured financing to CI Holdings ("Transplace"), a third-party logistics company that services many of the largest shippers in the world. The senior secured first lien loan bears interest in cash at the greater of 10.0% or Libor plus 5.0% and has a final maturity of June 11, 2019.

On June 11, 2013, we provided \$7,000 of secured second lien financing to Armor Holding II LLC ("AST"), a leading North American third-party provider of share registry and associated value added services to shareholders on behalf of listed public companies. The second lien loan bears interest in cash at the greater of 9.25% or Libor plus 8.0% and has a final maturity of December 26, 2020.

On June 12, 2013, we made a \$23,250 follow-on investment in R-V Industries, Inc. ("R-V"). The senior subordinated note bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of June 12, 2018.

On June 14, 2013, we sold our \$10,000 investment in Transaction Networks Services, Inc. ("TNS") and realized a gain of \$117 on this investment.

On June 18, 2013, we served as sole agent and provider of \$70,000 senior secured financing, of which \$65,643 was funded at closing, to support the recapitalization of Traeger Pellet Grills LLC

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

("Traeger"), a leading designer, marketer, and distributor of wood pellet grills, flavored wood pellets, and grill accessories. The \$30,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 4.5% and has a final maturity of June 18, 2018. The \$30,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of June 18, 2018. The \$10,000 senior secured revolver, of which \$5,643 was drawn at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of June 18, 2014.

On June 24, 2013, we made a \$76,533 follow-on investment in APH, to acquire Arium Resort (f/k/a The Resort at Pembroke Pines), a prominent multi-family residential community located in Pembroke Pines, Florida. We invested \$13,533 of equity and \$63,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On June 25, 2013, we made an investment of \$26,500 to purchase 84.13% of the subordinated notes in LCM XIV CLO Ltd. ("LCM XIV").

On June 27, 2013, we provided \$11,000 of secured second lien financing to Blue Coat Systems, Inc. ("Blue Coat"), a leading provider of web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 9.5% or Libor plus 8.5% and has a final maturity of June 28, 2020.

On June 27, 2013, we made a follow-on secured debt investment of \$87,500 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). After the financing, we now hold \$241,033 of senior secured debt of Progrexion. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On June 28, 2013, Sandow repaid \$30,100 of the \$55,000 loan receivable to us. After the repayment, we now hold \$24,900 of senior secured debt of Sandow.

On June 28, 2013, we made a \$1,000 follow-on investment in Ajax. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On June 28, 2013, we made an \$18,000 secured debt follow-on investment in New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry. The senior subordinated term loan bears interest in cash at 11.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

In June 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair market value.

### *Equity Issuance*

During the period from April 1, 2013 to May 31, 2013, we sold 8,836,237 shares of our common stock at an average price of \$10.92 per share, and raised \$96,476 of gross proceeds, under the ATM Program. Net proceeds were \$95,474 after commissions to the broker-dealer on shares sold and offering costs. No additional shares were sold from June 1, 2013 to June 30, 2013.

On April 18, 2013, May 23, 2013 and June 20, 2013, we issued 138,087, 117,497 and 117,107 shares of our common stock in connection with the dividend reinvestment plan, respectively.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

#### *Dividend*

On May 6, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110125 per share for May 2013 to holders of record on May 31, 2013 with a payment date of June 20, 2013;

\$0.110150 per share for June 2013 to holders of record on June 28, 2013 with a payment date of July 18, 2013;

\$0.110175 per share for July 2013 to holders of record on July 31, 2013 with a payment date of August 22, 2013; and

\$0.110200 per share for August 2013 to holders of record on August 30, 2013 with a payment date of September 19, 2013.

On June 17, 2013, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.110225 per share for September 2013 to holders of record on September 30, 2013 with a payment date of October 24, 2013;

\$0.110250 per share for October 2013 to holders of record on October 31, 2013 with a payment date of November 21, 2013;

\$0.110275 per share for November 2013 to holders of record on November 29, 2013 with a payment date of December 19, 2013; and

\$0.110300 per share for December 2013 to holders of record on December 31, 2013 with a payment date of January 23, 2014.

#### *Debt Issuance*

During the quarter ended June 30, 2013, we issued \$164,376 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$159,983, as follows:

<b>Date of Issuance</b>	<b>Principal Amount</b>	<b>Interest Rate Range</b>	<b>Weighted Average Interest Rate</b>	<b>Maturity Date</b>
April 4, 2013 - April 25, 2013	\$ 29,528	4.50% - 5.00%	4.96%	April 15, 2020
April 4, 2013 - April 25, 2013	264	3.78% - 3.78%	3.78%	April 15, 2023
April 4, 2013 - April 25, 2013	5,164	4.63% - 5.50%	5.34%	April 15, 2031
April 4, 2013 - April 25, 2013	12,280	6.00%	6.00%	April 15, 2043
May 2, 2013 - May 31, 2013	42,482	5.00%	5.00%	May 15, 2020
May 2, 2013 - May 31, 2013	10,000	5.00%	5.00%	May 15, 2028
May 2, 2013 - May 31, 2013	7,548	5.75%	5.75%	May 15, 2031
May 2, 2013 - May 31, 2013	33,641	6.25%	6.25%	May 15, 2043
June 6, 2013 - June 27, 2013	9,905	5.00% - 5.25%	5.04%	June 15, 2020
June 6, 2013 - June 27, 2013	5,000	5.00%	5.00%	June 15, 2028
June 6, 2013 - June 27, 2013	1,707	5.75% - 6.00%	5.85%	June 15, 2031
June 6, 2013 - June 27, 2013	6,857	6.25% - 6.50%	6.31%	June 15, 2043
	<b>\$ 164,376</b>			



Table of Contents

**Investment Holdings**

As of June 30, 2013, we continue to pursue our diversified investment strategy. At June 30, 2013, approximately \$4,172,852 or 157.1% of our net assets are invested in 124 long-term portfolio investments and CLOs and 5.4% of our net assets are invested in money market funds.

During the year ended June 30, 2013, we originated \$3,103,217 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close select junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our annualized current yield was 13.9% and 13.6% as of June 30, 2012 and June 30, 2013, respectively, across all performing interest bearing investments. The decrease in our current yield is primarily due to recent originations being at lower yields than the existing portfolio. Monetization of equity positions that we hold and loans on non-accrual status are not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of more than 25% of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of the investee company.

As of June 30, 2013, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax, APH, AWCNC, LLC, Borga, Inc., CCPI Holdings, Inc. ("CCPI"), Credit Central Holdings of Delaware, LLC ("Credit Central"), Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.) ("Energy Solutions"), First Tower Holdings of Delaware, LLC ("First Tower Delaware"), Manx Energy, Inc. ("Manx"), Nationwide Acceptance Holdings, LLC ("Nationwide"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V"), The Healing Staff, Inc. ("THS"), Valley Electric Holdings I, Inc. ("Valley Electric") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. (f/k/a Biotronic NeuroNetwork) ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Table of Contents

The following is a summary of our investment portfolio by level of control at June 30, 2013 and June 30, 2012, respectively:

Level of Control	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Control	\$ 830,151	19.5%	\$ 811,634	19.5%	\$ 518,015	24.7%	\$ 564,489	27.0%
Affiliate	49,189	1.2%	42,443	1.0%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	3,376,438	79.3%	3,318,775	79.5%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

The following is our investment portfolio presented by type of investment at June 30, 2013 and June 30, 2012, respectively:

Type of Investment	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Revolving Line of Credit	\$ 9,238	0.2%	\$ 8,729	0.2%	\$ 1,145	0.1%	\$ 868	0.0%
Senior Secured Debt	2,262,327	53.1%	2,207,091	52.8%	1,138,991	54.2%	1,080,053	52.0%
Subordinated Secured Debt	1,062,386	25.0%	1,024,901	24.6%	544,363	26.0%	488,113	22.9%
Subordinated Unsecured Debt	88,470	2.1%	88,827	2.1%	72,617	3.5%	73,195	3.5%
CLO Debt	27,667	0.7%	28,589	0.7%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	660,619	15.5%	658,086	15.8%	214,559	10.2%	218,009	10.4%
Preferred Stock	25,016	0.6%	14,742	0.4%	31,323	1.5%	29,155	1.4%
Common Stock	117,678	2.7%	108,494	2.6%	61,459	2.9%	137,198	6.6%
Membership Interests	216	0.0%	492	0.0%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests		%		%		%	1,623	0.1%
Net Profit Interests		%	20,959	0.5%		%		%
Escrows Receivable		%	4,662	0.1%		%	17,686	0.8%
Warrants	2,161	0.1%	7,280	0.2%	2,161	0.1%	6,760	0.3%
Total Portfolio	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

The following is our investments in interest bearing securities presented by type of security at June 30, 2013 and June 30, 2012, respectively:

Type of Investment	June 30, 2013				June 30, 2012			
	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities	Cost	Percent of Debt Securities	Fair Value	Percent of Debt Securities
First Lien	\$ 2,271,565	55.3%	\$ 2,215,820	55.2%	\$ 1,147,599	57.4%	\$ 1,088,887	57.6%
Second Lien	1,062,386	25.8%	1,024,901	25.5%	536,900	26.9%	480,147	25.4%
Unsecured	88,470	2.2%	88,827	2.2%	72,617	3.6%	73,195	3.9%
CLO Residual Interest	660,619	16.0%	658,086	16.4%	214,559	10.7%	218,009	11.6%
CLO Debt	27,667	0.7%	28,589	0.7%	27,258	1.4%	27,717	1.5%
Total Debt Securities	\$ 4,110,707	100.0%	\$ 4,016,223	100.0%	\$ 1,998,933	100.0%	\$ 1,887,955	100.0%



Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Table of Contents

The following is our investment portfolio presented by geographic location of the investment at June 30, 2013 and June 30, 2012, respectively:

Geographic Location	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Canada	\$ 165,000	3.9%	\$ 165,000	4.0%	\$ 15,134	0.7%	\$ 17,040	0.8%
Cayman Islands	688,286	16.2%	686,675	16.5%	241,817	11.5%	245,726	11.7%
Ireland	14,927	0.4%	15,000	0.4%	14,918	0.7%	15,000	0.7%
Midwest US	565,239	13.3%	531,934	12.7%	427,430	20.4%	377,139	18.0%
Northeast US	649,484	15.3%	663,025	15.9%	293,181	14.0%	313,437	15.0%
Puerto Rico	41,352	1.0%	41,352	1.0%		%		%
Southeast US	1,111,946	26.0%	1,081,320	25.8%	642,984	30.6%	634,945	30.4%
Southwest US	345,392	8.1%	336,362	8.1%	193,627	9.2%	234,433	11.2%
Western US	674,152	15.8%	652,184	15.6%	270,222	12.9%	256,501	12.2%
Total Portfolio	\$ 4,255,778	100.0%	\$ 4,172,852	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Table of Contents

The following is our investment portfolio presented by industry sector of the investment at June 30, 2013 and June 30, 2012, respectively:

Industry	June 30, 2013				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 56	0.0%	\$	%	56	0.0%	\$	%
Automobile / Auto Finance	23,214	0.6%	22,917	0.5%	32,806	1.6%	32,478	1.6%
Biotechnology		%	14	0.0%		%		%
Business Services	180,793	4.2%	179,544	4.3%	3,164	0.2%	3,288	0.2%
Chemicals	28,364	0.7%	28,648	0.7%	58,104	2.8%	58,104	2.8%
Commercial Services	252,073	5.9%	252,073	6.0%	80,418	3.8%	80,407	3.8%
Construction and Engineering	53,615	1.3%	53,615	1.3%		%		%
Consumer Finance	413,332	9.7%	406,964	9.8%	305,521	14.6%	305,521	14.6%
Consumer Services	330,343	7.8%	332,394	8.0%	146,335	7.0%	147,809	7.1%
Contracting	2,145	0.1%		%	15,949	0.8%		%
Diversified Financial Services	745,705	17.5%	742,434	17.8%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service		%	143	0.0%		%	35	0.0%
Durable Consumer Products	380,225	8.9%	370,207	8.9%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	335	0.0%	141	0.0%	240	0.0%
Electronics		%	149	0.0%		%	144	0.0%
Energy	63,895	1.5%	56,321	1.3%	63,245	3.0%	126,868	6.1%
Food Products	177,423	4.2%	177,428	4.3%	101,975	4.9%	96,146	4.5%
Healthcare	275,124	6.5%	273,838	6.6%	141,990	6.8%	143,561	6.9%
Hotel, Restaurant & Leisure	11,764	0.3%	12,000	0.3%		%		%
Insurance		%		%	83,461	4.0%	83,461	4.0%
Machinery	396	0.0%	790	0.0%	4,684	0.2%	6,485	0.3%
Manufacturing	163,431	3.8%	167,584	4.0%	95,191	4.5%	127,127	6.1%
Media	171,290	4.0%	161,325	3.9%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	60,162	1.4%	60,274	1.4%		%		%
Oil and Gas Equipment Services		%		%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	75,126	1.8%	24,420	0.6%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,000	0.9%	39,630	0.9%	39,351	1.8%	39,968	1.9%
Production Services		%		%	268	0.0%	2,040	0.1%
Property Management	51,170	1.2%	54,648	1.3%	51,770	2.5%	47,982	2.2%
Real Estate	152,540	3.6%	152,540	3.7%		%		%
Retail	14,190	0.3%	14,569	0.3%	63	0.0%	129	0.0%
Software & Computer Services	307,734	7.2%	309,308	7.4%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	0.9%	42,558	1.0%	37,732	1.8%	44,562	2.1%
Textiles, Apparel & Luxury Goods	99,500	2.3%	99,323	2.4%		%		%
Textiles and Leather	16,760	0.4%	9,385	0.2%	15,123	0.7%	17,161	0.8%
Transportation	127,767	3.0%	127,474	3.1%	50,530	2.4%	50,777	2.4%
<b>Total Portfolio</b>	<b>\$ 4,255,778</b>	<b>100.0%</b>	<b>\$ 4,172,852</b>	<b>100.0%</b>	<b>\$ 2,099,313</b>	<b>100.0%</b>	<b>\$ 2,094,221</b>	<b>100.0%</b>

Table of Contents

**Portfolio Investment Activity**

During the year ended June 30, 2013, we acquired \$2,574,755 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$496,371, funded \$21,143 of revolver advances, and recorded PIK interest of \$10,947, resulting in gross investment originations of \$3,103,217. The more significant of these investments are described briefly in the following:

On July 5, 2012, we made a senior secured debt investment of \$28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("TFS"), a provider of forklift and other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of July 5, 2017.

On July 16, 2012, we provided \$15,000 of secured second lien financing to Pelican Products, Inc., a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided \$12,000 of senior secured financing to EIG Investors Corp ("EIG"), a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of October 22, 2018.

On July 20, 2012, we provided \$10,000 of senior secured financing to FPG, LLC ("FPG"), a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 27, 2012, we provided \$85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. The new company, Arctic Glacier U.S.A., Inc., will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States. The unsecured subordinated term loan bears interest in cash at 12.0% and interest payment in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a \$27,000 secured loan to support the acquisition of New Star, a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided \$120,000 of senior secured financing, of which \$110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("Interdent"), a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G. The \$55,000 Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The \$55,000 Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The \$10,000 senior secured revolver, which was unfunded at closing, bears interest in cash at the greater of 10.5% or Libor plus 8.25% and matured on February 3, 2013.

On August 3, 2012, we provided \$44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc., a leading transportation and logistics company.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest payment in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided \$10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited, the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of subsurface natural resources. The second lien term loan originally bore interest in cash at the greater of 10.5% or Libor plus 8.25%. On January 17, 2013, we amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The second lien term loan has a final maturity of August 3, 2020.

On August 6, 2012, we made an investment of \$22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I, Ltd.

On August 7, 2012, we made an investment of \$36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II, Ltd.

On August 17, 2012, we made a secured second lien investment of \$38,500 to support the recapitalization of American Gilsonite Company. The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, on August 28, 2012, we received repayment of the \$37,732 loan previously outstanding.

On September 14, 2012, we invested an additional \$10,000 in Hoffmaster Group, Inc. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of January 3, 2019.

On September 14, 2012, we made a secured investment of \$135,000 to support the recapitalization of Progrexion. Concurrent with the financing, we received repayment of the \$62,680 of loans that were previously outstanding. The senior secured loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On September 27, 2012, we made an investment of \$45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd.

On September 28, 2012, we made an unsecured investment of \$10,400 to support the acquisition of Evanta Ventures, Inc., a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest payment in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of \$100,000 to support the recapitalization of United Sporting Companies, Inc. ("USC"), a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On October 3, 2012, we made a senior secured investment of \$21,500 to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle. The first lien note bears interest in cash at the greater of 13.5% or Libor plus 11.0% and has a final maturity of October 3, 2017.

On October 11, 2012, we made a secured second lien investment of \$12,000 in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of October 10, 2019.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

On October 12, 2012, we made a senior secured investment of \$42,000 to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added forging solutions to energy and industrial end markets. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of October 12, 2017.

On October 18, 2012, we made a follow-on senior secured debt investment of \$20,000 in First Tower Delaware, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of June 30, 2022.

On October 24, 2012, we made an investment of \$7,800 in APH, to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia. We invested \$1,809 of equity and \$6,000 of debt in APH. The first lien note originally bore interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 2.0%. On January 17, 2013, we amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The first lien note has a final maturity of October 24, 2020.

On November 5, 2012, we made an investment of \$39,475 to purchase 95.0% of the income notes in ING IM CLO 2012-IV, Ltd.

On November 9, 2012, we made a secured second lien investment of \$22,000 to support the recapitalization of EIG. Concurrent with the financing, we received a repayment of the \$12,000 loan previously outstanding. The new note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of May 9, 2020.

On November 26, 2012, we made a secured second lien investment of \$22,000 in The Petroleum Place, Inc., a provider of enterprise resource planning software focused on the oil & gas industry. The second lien note bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of May 20, 2019.

On November 30, 2012, we made a secured second lien investment of \$9,500 to support the recapitalization of R-V. The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and has a final maturity of May 30, 2018. As part of the recapitalization, we received a dividend of \$11,073 for our investment in R-V's common stock.

On December 6, 2012, we made an investment of \$38,291 to purchase 90% of the subordinated notes in Apidos CLO XI, LLC.

On December 13, 2012, we completed a \$33,921 recapitalization of CCPI, an international manufacturer of refractory materials and other consumable products for industrial applications. Through the recapitalization, Prospect acquired a controlling interest in CCPI for \$28,334 in cash and 467,928 unregistered shares of our common stock. The first lien note issued to CCPI bears interest in cash at a fixed rate of 10.0% and has a final maturity of December 31, 2017. The first lien note issued to CCPI bears interest in cash at a fixed rate of 12.0% and interest payment in kind of 7.0%, and has a final maturity of June 30, 2018.

On December 14, 2012, we provided \$10,000 of first lien financing to support the recapitalization of Prince Mineral Holding Corp. ("Prince"), a leading global specialty mineral processor and consolidator. The first lien note bears interest in cash at a fixed rate of 11.5% and has a final maturity of December 15, 2019.

On December 14, 2012, we made a \$3,000 follow-on investment in Focus Brands, Inc. The second lien note bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of August 21, 2018.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

On December 17, 2012, we made a \$39,800 first lien investment in Coverall North America, Inc. ("Coverall"), a leading franchiser of commercial cleaning businesses. The first lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and has a final maturity of December 17, 2017.

On December 17, 2012, we made a \$38,150 first lien follow-on investment in TFS, to support the acquisition of Miner Holding Company, Inc. The first lien note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 21, 2017.

On December 17, 2012, we made a secured debt investment of \$30,000 to support the recapitalization of Biotronic. After the financing, we received repayment of the \$26,227 loan that was previously outstanding. The new note bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity of December 17, 2017.

On December 19, 2012, we provided \$17,500 of senior secured second lien financing to Grocery Outlet, Inc., to support the recapitalization of a retailer of food, beverages and general merchandise. The second lien note bears interest in cash at the greater of 10.5% or Libor plus 9.25% and has a final maturity of June 17, 2019.

On December 19, 2012, we provided \$23,200 of senior secured second lien financing to support the recapitalization of TB Corp., a Mexican restaurant chain. The second lien note bears interest in cash at a fixed rate of 12.0% and interest payment in kind of 1.5% and has a final maturity of December 18, 2018.

On December 20, 2012, we made an additional follow-on senior secured debt investment of \$19,500 to support the recapitalization of Progrexion. After the financing, we held \$154,500 of senior secured debt of Progrexion. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On December 21, 2012, we made a \$10,000 senior secured second lien follow-on investment in Seaton Corp. The second lien note bears interest in cash at the greater of 12.5% or Libor plus 9.0% and interest payment in kind of 2.0% and has a final maturity of March 14, 2015.

On December 21, 2012, we made a \$37,500 senior secured first lien investment in Lasership, Inc., a leading provider of regional same day and next day distribution services for premier e-commerce and product supply businesses. The first lien note bears interest in cash at the greater of 10.25% or Libor plus 8.25% and has a final maturity of December 21, 2017.

On December 21, 2012, we made a \$12,000 senior secured first lien follow-on investment in FPG, a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The first lien note bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On December 24, 2012, we made a follow-on secured debt investment of \$5,000 in New Star. The second lien note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

On December 24, 2012, we made a \$7,000 second lien secured investment in Aderant North America, Inc., a leading provider of enterprise software solutions to professional services organizations. The second lien note bears interest in cash at the greater of 11.0% or PRIME plus 7.75% and has a final maturity of June 20, 2019.

On December 28, 2012, we made a \$9,500 first lien secured investment in APH, to acquire Abbington Pointe, Inc., a multi-family property in Marietta, Georgia. We invested \$3,193 of equity and \$6,400 of debt in APH. The first lien note originally bore interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 2.0%. On January 17, 2013, we

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

amended the terms of this investment and the first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.5% as of June 30, 2013. The first lien note has a final maturity of October 24, 2020.

On December 28, 2012, we made a \$5,000 second lien secured investment in TransFirst Holdings, Inc., a payments processing firm that provides electronic credit card authorization to merchants located throughout the United States. The second lien note bears interest in cash at the greater of 11.0% or Libor plus 9.75% and has a final maturity of June 27, 2018.

On December 28, 2012, we completed a \$47,900 recapitalization of Credit Central, a branch-based provider of installment loans. Through the recapitalization, we acquired a controlling interest in Credit Central for \$38,082 in cash and 897,906 unregistered shares of our common stock. The first lien note bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of December 31, 2020.

On December 28, 2012, we made a \$3,600 follow-on subordinated unsecured investment in Ajax. The unsecured note bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.00% and has a final maturity of December 31, 2017.

On December 28, 2012, we made a \$30,000 first lien senior secured investment to support the recapitalization of Spartan Energy Services, LLC ("Spartan"), a leading provider of thru tubing and flow control services to oil and gas companies. The first lien note bears interest in cash at the greater of 10.5% or Libor plus 9.0% and has a final maturity of December 28, 2017.

On December 31, 2012, we provided \$32,000 senior secured loan to support the acquisition of System One Holdings, LLC, a leading provider of professional staffing services. The first lien note bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of December 31, 2018.

On December 31, 2012, we funded a recapitalization of Valley Electric with \$42,572 of debt and \$9,526 of equity financing. Through the recapitalization, we acquired a controlling interest in Valley Electric for \$7,449 in cash and 4,141,547 unregistered shares of our common stock. The first lien note issued to Valley Electric bears interest in cash at the greater of 9.0% or Libor plus 6.0% and interest payment in kind of 9.0% and has a final maturity of December 31, 2018. The first lien note issued to Valley Electric Co. of Mt. Vernon Inc. bears interest in cash at the greater of 8.0% or Libor plus 5.0% and interest payment in kind of 2.5% and has a final maturity of December 31, 2017.

On December 31, 2012, we provided \$70,000 of secured second lien debt financing for the acquisition of Thomson Reuters Property Tax Services by Ryan, LLC ("Ryan"). The second lien note bears interest in cash at the greater of 12.0% or Libor plus 9.0% and interest payment in kind of 3.0% and has a final maturity of June 30, 2018.

On January 11, 2013, we provided \$27,100 of debt financing to Correctional Healthcare Holding Company, Inc. ("CHC"), a national provider of correctional medical and behavioral healthcare solutions. The subordinated secured second lien loan bears interest in cash at 11.25% and has a final maturity of January 11, 2020.

On January 17, 2013, we made a \$30,348 follow-on investment in APH, to acquire 5100 Live Oaks Blvd, LLC, a multi-family residential property located in Tampa, Florida. We invested \$2,748 of equity and \$27,600 of debt in APH. The first lien note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On January 24, 2013, we made an investment of \$24,870 to purchase 56.14% of the subordinated notes in Cent 17 CLO Limited.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

On January 24, 2013, we made an investment of \$26,901 to purchase 50.12% of the subordinated notes in Octagon Investment Partners XV, Ltd.

On January 29, 2013, we provided \$8,000 of secured second lien financing to TGG Medical Transitory, Inc., a developer of technologies for extracorporeal photopheresis treatments. The senior secured second lien term loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of June 27, 2018.

On January 31, 2013, we funded an acquisition of the subsidiaries of Nationwide, which operate a specialty finance business based in Chicago, Illinois, with \$21,308 of debt and \$3,843 of equity financing. The senior secured term loan bears interest in cash at the greater of 20.0% or Libor plus 18.5% and has a final maturity of January 31, 2023.

On February 5, 2013, we received a distribution of \$3,250 related to our investment in NRG Manufacturing, Inc. ("NRG"), for which we realized a gain of the same amount. This was a partial release of the amount held in escrow.

On February 5, 2013, we made a secured debt investment of \$2,000 in Healogics, Inc. ("Healogics"), a provider of outpatient wound care management services located in Jacksonville, Florida.

On February 13, 2013, we made an investment of \$35,025 to purchase 50.34% of the subordinated notes in Galaxy XV CLO, Ltd.

On February 14, 2013, we made a \$2,000 secured second lien debt investment in J.G. Wentworth, LLC ("J.G. Wentworth"), the largest purchaser of structured settlement and annuity payments in the United States. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 7.5% and has a final maturity of February 8, 2019.

On February 14, 2013, we provided \$15,000 of senior secured financing to Speedy Group Holdings Corp., a leading provider of short-term loans and financial services in the United States, the United Kingdom and Canada. The unsecured subordinated term loan bears interest in cash at 12.0% and has a final maturity of November 15, 2017.

On February 15, 2013, we made a \$6,000 secured second lien debt investment in SESAC Holdco II LLC, a performing rights organization based in Nashville, Tennessee. The second lien term loan bears interest in cash at the greater of 10.0% or Libor plus 8.75% and has a final maturity of July 12, 2019.

On February 21, 2013, we provided \$39,550 of senior secured first lien financing to Atlantis Healthcare Group (Puerto Rico), Inc., a leading owner and operator of dialysis stations. The senior secured term loan bears interest in cash at the greater of 10.0% or Libor plus 8.0% and has a final maturity date of February 21, 2018.

On February 25, 2013, we made a \$10,000 secured second lien loan and a \$2,000 secured first lien debt investment in TNS, an international data communications company that provides networking, data communications and other value added services. The second lien term loan bears interest in cash at the greater of 9.0% or Libor plus 8.0% and has a final maturity of August 14, 2020.

On March 1, 2013, we made a \$70,000 secured term loan investment in a subsidiary of Cinedigm DC Holdings, LLC, a leading provider of digital cinema services, software and content marketing and distribution. The senior secured term loan bears interest in cash at the greater of 11.0% or Libor plus 9.0% and interest payment in kind of 2.5% and has a final maturity of March 31, 2021.



## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

On March 6, 2013, we made a \$5,000 follow-on investment in Rocket Software, Inc. The senior secured second lien term loan bears interest in cash at the greater of 10.25% or Libor plus 8.75% and has a final maturity of February 8, 2019.

On March 7, 2013, we made a secured second lien follow-on investment of \$60,000 in USC. The senior secured second lien term loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

On March 8, 2013, we made an investment of \$40,400 to purchase 78.60% of the subordinated notes in Halcyon Loan Advisors Funding 2013-I, Ltd.

On March 12, 2013, we provided \$12,000 of secured second lien financing to ALG USA Holding, LLC, a vertically integrated travel company that focuses on providing all-inclusive vacations in Mexico and the Caribbean to U.S. customers. The senior secured second lien term loan bears interest in cash at the greater of 10.25% or Libor plus 9.0% and has a final maturity of February 28, 2020.

On March 15, 2013, we made an investment of \$44,063 to purchase 95.27% of the subordinated notes in Apidos CLO XII, Ltd.

On March 18, 2013, we provided a \$197,291 first lien senior secured credit facility to support the refinancing of Capstone Logistics, LLC ("Capstone"), a logistics services portfolio company. After the financing, we received repayment of \$69,139 of loans previously outstanding. The \$97,291 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 5.0% and has a final maturity of September 16, 2016. The \$100,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of September 16, 2016.

On March 27, 2013, we provided \$100,000 of senior secured debt financing to support the recapitalization of Broder Bros., Co. ("Broder"), a leading distributor of imprinted sportswear and accessories in the United States. The senior secured term loan bears interest in cash at the greater of 10.75% or Libor plus 9.0% and has a final maturity of June 27, 2018.

On April 1, 2013, we refinanced our existing \$38,472 senior and subordinated loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On April 17, 2013, we made an investment of \$43,650 to purchase 97% of the subordinated notes in Mountain View.

On April 22, 2013, we provided \$34,375 of senior secured financing, of which \$31,875 was funded at closing, to support the acquisition of Pegasus, the world's largest processor of commissions paid by hotels to travel agencies for room booking services. The Term Loan A note bears interest in cash at the greater of 6.75% or Libor plus 5.5% and has a final maturity of April 18, 2018. The Term Loan B note bears interest in cash at the greater of 13.75% or Libor plus 12.5% and has a final maturity of April 18, 2018. The \$5,000 senior secured revolver bears interest in cash at the greater of 9.0% or Libor plus 7.75% and has a final maturity of April 18, 2014.

On April 25, 2013, we made an investment of \$26,000 to purchase 50.9% of the subordinated notes in Brookside.

On April 30, 2013, we made a \$21,247 follow-on investment in APH, to acquire Lofton Place Apartments and Vista at Palma Sola, multi-family residential properties located in Florida. We invested \$3,247 of equity and \$18,000 of debt in APH. The senior secured note bears interest in

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On May 8, 2013, we made a \$6,119 follow-on investment in APH, to acquire Arlington Park, a multi-family residential property located in Marietta, Georgia. We invested \$2,118 of equity and \$4,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On May 9, 2013, we provided a \$60,000 senior secured credit facility, of which \$55,000 was funded at closing, to support the recapitalization of Sandow, a provider of multimedia content and services to businesses and consumers focused on the areas of design and luxury. The senior secured first lien loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and interest payment in kind of 1.5% and has a final maturity of May 8, 2018.

On May 10, 2013, we provided a \$150,000 senior secured term loan to support the recapitalization of Arctic Glacier, a leading producer, marketer, and distributor of high-quality packaged ice to consumers in the United States and Canada. After the financing, we received repayment of \$86,982 of subordinated unsecured term loan previously outstanding. The senior secured second lien loan bears interest in cash at the greater of 11.25% or Libor plus 10.0% and has a final maturity of November 10, 2019.

On May 14, 2013, we provided \$4,000 of senior secured financing to SourceHOV, a leading provider of business and knowledge process outsourcing. The senior secured second lien loan bears interest in cash at the greater of 8.75% or Libor plus 7.5% and has a final maturity of April 30, 2019.

On May 31, 2013, we made a follow-on secured second lien debt investment of \$7,190 in IWP, a specialty pharmacy services company. The secured second lien loan bears interest in cash at the greater of 11.5% or Libor plus 7.0% and interest payment in kind of 1.0% and has a final maturity of May 31, 2019.

On June 11, 2013, we provided \$115,000 of senior secured financing to Transplace, a third-party logistics company that services many of the largest shippers in the world. The senior secured first lien loan bears interest in cash at the greater of 10.0% or Libor plus 5.0% and has a final maturity of June 11, 2019.

On June 11, 2013, we provided \$7,000 of secured second lien financing to AST, a leading North American third-party provider of share registry and associated value added services to shareholders on behalf of listed public companies. The second lien loan bears interest in cash at the greater of 9.25% or Libor plus 8.0% and has a final maturity of December 26, 2020.

On June 12, 2013, we made a \$23,250 follow-on investment in R-V. The senior subordinated note bears interest in cash at the greater of 10.0% or Libor plus 9.0% and has a final maturity of June 12, 2018.

On June 18, 2013, we served as sole agent and provider of \$70,000 senior secured financing, of which \$65,643 was funded at closing, to support the recapitalization of Traeger, a leading designer, marketer, and distributor of wood pellet grills, flavored wood pellets, and grill accessories. The \$30,000 Term Loan A note bears interest in cash at the greater of 6.5% or Libor plus 4.5% and has a final maturity of June 18, 2018. The \$30,000 Term Loan B note bears interest in cash at the greater of 11.5% or Libor plus 9.5% and has a final maturity of June 18, 2018. The \$10,000 senior secured revolver, of which \$5,643 was drawn at closing, bears interest in cash at the greater of 9.0% or Libor plus 7.0% and has a final maturity of June 18, 2014.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

On June 24, 2013, we made a \$76,533 follow-on investment in APH, to acquire Arium Resort (f/k/a The Resort at Pembroke Pines), a prominent multi-family residential community located in Pembroke Pines, Florida. We invested \$13,533 of equity and \$63,000 of debt in APH. The senior secured note bears interest in cash at the greater of 6.0% or Libor plus 4.0% and interest payment in kind of 5.50% and has a final maturity of October 24, 2020.

On June 25, 2013, we made an investment of \$26,500 to purchase 84.13% of the subordinated notes in LCM XIV.

On June 27, 2013, we provided \$11,000 of secured second lien financing to Blue Coat, a leading provider of web security and wide area network (WAN) optimization solutions. The second lien note bears interest in cash at the greater of 9.5% or Libor plus 8.5% and has a final maturity of June 28, 2020.

On June 27, 2013, we made a follow-on secured debt investment of \$87,500 to support the recapitalization of Progrexion. After the financing, we now hold \$241,033 of senior secured debt of Progrexion. The senior secured first lien note bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On June 28, 2013, we made a \$1,000 follow-on investment in Ajax. The subordinated unsecured term loan bears interest in cash at the greater of 11.5% or Libor plus 8.5% and interest payment in kind of 6.0% and has a final maturity of March 30, 2018.

On June 28, 2013, we made an \$18,000 secured debt follow-on investment in New Star, a provider of specialized processing services to the steel industry. The senior subordinated term loan bears interest in cash at 11.5% and interest payment in kind of 1.0% and has a final maturity of February 2, 2018.

During the year ended June 30, 2013, we closed-out twenty-three positions which are briefly described below.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("Iron Horse") common stock in connection with the exercise of an equity buyout option, receiving \$2,040 of net proceeds and realizing a gain of approximately \$1,772 on the sale.

On August 3, 2012, Pinnacle Treatment Centers, Inc. repaid the \$17,475 loan receivable to us.

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. repaid the \$25,000 loan receivable to us.

On September 20, 2012, Fischbein repaid the \$3,425 loan receivable to us.

On October 5, 2012, Northwestern Management Services, LLC ("Northwestern") repaid the \$15,092 loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of \$2,233, realizing a gain of \$1,862.

On October 16, 2012, Blue Coat repaid the \$25,000 loan receivable to us.

On October 18, 2012, Hi-Tech Testing Services, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the \$7,200 loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the \$15,000 loan receivable to us.

On October 31, 2012, Shearer's Foods, Inc. ("Shearer's") repaid the \$37,999 loan receivable to us. On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's, receiving \$6,022 of net proceeds and realizing a gain of approximately \$2,027 on the redemption.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

On November 8, 2012, Potters Holdings II, L.P. repaid the \$15,000 loan receivable to us.

On November 15, 2012, Renaissance Learning, Inc. repaid the \$6,000 loan receivable to us.

On December 3, 2012, VanDeMark Chemicals, Inc. repaid the \$29,658 loan receivable to us.

On December 7, 2012, Hudson Products Holdings, Inc. ("Hudson") repaid the \$6,267 loan receivable to us.

On December 21, 2012, ST Products, LLC repaid the \$23,162 loan receivable to us.

On December 21, 2012, SG Acquisition, Inc. repaid the \$83,242 loan receivable to us.

On February 5, 2013, we sold our \$2,000 investment in Healogics and realized a gain of \$60 on this investment.

On February 25, 2013, we sold our \$2,000 secured first lien investment in TNS and realized a gain of \$20 on this investment.

On March 18, 2013, we sold our \$2,000 investment in J.G. Wentworth and realized a gain of \$75 on this investment.

On March 28, 2013, we sold our investment in New Meatco Provisions, LLC ("Meatco") for net proceeds of approximately \$1,965, realizing a loss of \$10,814 on the sale.

On March 29, 2013, we received net proceeds of \$1,251 for the partial sale of our equity investment in Caleel + Hayden, LLC, realizing a gain of \$900 on the sale.

On April 30, 2013, we sold our investment in Fischbein for net proceeds of \$3,168, recognizing a realized gain of \$2,293 on the sale. In addition, there is \$310 being held in escrow which will be recognized as additional gain if and when received.

On May 16, 2013, Out Rage repaid the \$11,836 loan receivable to us.

On May 23, 2013, Snacks Holding repaid the \$15,366 loan receivable to us.

On June 3, 2013, Nobel repaid the \$15,262 loan receivable to us.

On June 4, 2013, Springs repaid the \$35,000 loan receivable to us.

On June 13, 2013, we sold our \$4,000 investment in SourceHOV and realized a gain of \$40 on this investment.

On June 14, 2013, we sold our \$10,000 investment in TNS and realized a gain of \$117 on this investment.

On June 28, 2013, Sandow repaid \$30,100 of the \$55,000 loan receivable to us. After the repayment, we now hold \$24,900 of senior secured debt of Sandow.

In addition to the repayments noted above, during the year ended June 30, 2013, we received principal amortization payments of \$19,568 on several loans, and \$99,066 of partial prepayments primarily related to Byrider Systems Acquisition Corp, Capstone, Cargo Airport Services USA, LLC ("Cargo"), Energy Solutions, NMMB, Northwestern, and Sandow.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. We do not know the timing, if any, related to this potential earnout and have valued the \$28,000 at zero as of June 30, 2013. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas

Table of Contents

Solutions by Energy Solutions resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are earnings and profits sufficient to support such recognition. During the year ended June 30, 2013, Energy Solutions repaid \$28,500 of senior and subordinated secured debt. We received \$19,543 of make-whole fees for early repayment of the outstanding loan receivables, which was recorded as interest income during the year ended June 30, 2013. During the year ended June 30, 2013, we received distributions of \$53,820 from Energy Solutions which were recorded as dividend income. Energy Solutions continues to hold \$23,979 of cash for future investment and repayment of the remaining debt.

During the year ended June 30, 2013, we recognized \$1,481 of interest income due to purchase discount accretion from the assets acquired from Patriot Capital Funding, Inc. ("Patriot"). Included in the \$1,481 recorded during the year ended June 30, 2013 is \$1,111 of normal accretion and \$370 of accelerated accretion resulting from the repayment of Hudson. We expect to recognize \$240 of normal accretion during the three months ended September 30, 2013.

During the year ended June 30, 2012, we recognized \$6,613 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$6,613 is \$3,083 of normal accretion and \$3,530 of accelerated accretion resulting from the repayment of Mac & Massey Holdings, LLC ("Mac & Massey"), Nupla Corporation ("Nupla"), ROM Acquisition Corp and Sport Helmets Holdings, LLC ("Sport Helmets").

During the year ended June 30, 2011, we recognized \$22,084 of interest income due to purchase discount accretion from the assets acquired from Patriot. Included in the \$22,084 is \$4,912 of normal accretion, \$12,035 of accelerated accretion resulting from the repayment of Impact Products, LLC, Label Corp Holdings Inc. and Prince, and \$4,968 of accelerated accretion resulting from the recapitalization of our debt investments in Arrowhead General Insurance Agency, Inc. ("Arrowhead"), The Copernicus Inc. ("Copernicus"), Fischbein and Northwestern. The restructured loans for Arrowhead, Copernicus, Fischbein and Northwestern were issued at market terms comparable to other industry transactions. In accordance with ASC 320-20-35 the cost basis of the new loans were recorded at par value, which precipitated the acceleration of original purchase discount from the loan repayments which was recognized as interest income.

Table of Contents

The following is a quarter-by-quarter summary of our investment activity:

Quarter-End	Acquisitions(1)	Dispositions(2)
June 30, 2013	\$ 798,760	\$ 321,615
March 31, 2013	784,395	102,527
December 31, 2012	772,125	349,269
September 30, 2012	747,937	158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	\$ 6,352,530	\$ 2,089,211

(1) Includes new deals, additional fundings, refinancings and PIK interest.

(2) Includes scheduled principal payments, prepayments and refinancings.

(3) The \$210,438 of acquisitions for the quarter ended December 31, 2009 includes \$207,126 of portfolio investments acquired from Patriot.

Table of Contents

**Investment Valuation**

In determining the fair value of our portfolio investments at June 30, 2013, the Audit Committee considered valuations from the independent valuation firms and from management having an aggregate range of \$4,081,889 to \$4,354,692, excluding money market investments.

In determining the range of value for debt instruments, management and the independent valuation firms generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

In determining the range of value for our investments in CLOs, management and the independent valuation firms used discounted cash flow models. The valuations were accomplished through the analysis of the CLO deal structures to identify the risk exposures from the modeling point of view. For each security, the most appropriate valuation approach was chosen from alternative approaches to ensure the most accurate valuation for each security. A discounted cash flow model is prepared, utilizing a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distributes the cash flow to the liability structure based on the payment priorities, and discount them back using proper discount rates that incorporate all the risk factors.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties, comparable multiples for recent sales of companies within the industry and discounted cash flow models for our investments in CLOs. The composite of all these analyses, applied to each investment, was a total valuation of \$4,172,852, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

*AIRMALL USA, Inc.*

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested \$52,420 of combined debt and equity as follows: \$30,000 senior term loan, \$12,500 senior subordinated note and \$9,920 preferred equity. We own 100% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

As a result of improved operating results, the Board of Directors increased the fair value of our investment in AIRMALL to \$54,648 as of June 30, 2013, a premium of \$3,478 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

#### *Ajax Rolled Ring & Machine, Inc.*

Ajax forges large seamless steel rings on two forging mills in the company's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. During the quarter ended December 31, 2012, we funded an additional \$3,600 of unsecured debt to refinance first lien debt held by Wells Fargo.

On April 1, 2013, we refinanced our existing \$38,472 senior loans to Ajax, increasing the size of our debt investment to \$38,537. Concurrent with the refinancing, we received repayment of the \$18,635 loans that were previously outstanding. As of June 30, 2013, we control 78.01% of the fully-diluted common and preferred equity. The principal balance of our senior debt to Ajax was \$19,737 and our subordinated debt was \$19,700 as of June 30, 2013.

Due to soft operating results, the Board of Directors decreased the fair value of our investment in Ajax to \$39,437 as of June 30, 2013, a reduction of \$6,057 from its amortized cost, compared to the \$11,151 unrealized appreciation recorded at June 30, 2012.

#### *APH Property Holdings, LLC*

We make investments in real estate through our investment in APH, a holding company that owns 100% of the common equity of APHC. APHC is a Maryland corporation and qualified REIT for federal income tax purposes.

During the year ended June 30, 2013, we provided \$125,892 and \$26,648 of debt and equity financing, respectively, to APH for the acquisition of various industrial and multi-family residential real estate properties in Florida and Georgia. We received structuring fees of \$4,511 from APH that were recorded as other income during the year ended June 30, 2013. As of June 30, 2013, APHC's real estate portfolio was comprised of seven investments. The following table shows the mortgages outstanding due to other parties for each of the seven properties:

No.	Property Name	City	Date of Acquisition	Purchase Price	Mortgage Outstanding
1	146 Forest Parkway	Forest Park, GA	10/24/2012	\$ 7,400	\$
2	Abbingtion Pointe	Marietta, GA	12/28/2012	23,500	15,275
3	Amberly Place	Tampa, FL	1/17/2013	63,400	39,600
4	Lofton Place	Tampa, FL	4/30/2013	26,000	16,965
5	Vista at Palma Sola	Bradenton, FL	4/30/2013	27,000	17,550
6	Arlington Park	Marietta, GA	5/8/2013	14,850	9,650
7	Arium Resort	Pembroke Pines, GA	6/24/2013	225,000	157,500

The Board of Directors set the fair value of our investment in APH at \$152,540 as of June 30, 2013, equal to its amortized cost.



Table of Contents

*Energy Solutions Holdings, Inc. (f/k/a Gas Solutions Holdings, Inc.)*

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in east Texas.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in Change Clean Energy Holdings, Inc. ("CCEHI"), Change Clean Energy, Inc. ("CCEI"), Freedom Marine Holdings, LLC ("Freedom Marine") and Yatesville Coal Holdings, Inc. ("Yatesville") to Energy Solutions. On December 28, 2011, we made a follow-on investment of \$4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold Gas Solutions for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that will be paid based on the future performance of Gas Solutions. After expenses, including structuring fees of \$9,966 paid to us, Energy Solutions received approximately \$158,687 in cash. Currently, a loan to Energy Solutions remains outstanding and is collateralized by the cash held by Energy Solutions after the sale transaction. The sale of Gas Solutions by Energy Solutions has resulted in significant earnings and profits, as defined by the Internal Revenue Code, at Energy Solutions for calendar year 2012. As a result, distributions from Energy Solutions to us were required to be recognized as dividend income, in accordance with ASC 946, *Financial Services Investment Companies*, as cash distributions are received from Energy Solutions to the extent there are current year earnings and profits sufficient to support such recognition.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be \$26,696 for our debt and equity positions at June 30, 2013 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At June 30, 2013 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at \$7,574 below and \$63,623 above its amortized cost, respectively. We received distributions of \$53,820 from Energy Solutions that were recorded as dividend income during the year ended June 30, 2013. We also received \$19,543 of make-whole fees from Energy Solutions for early repayments of the outstanding loans, which was recorded as interest income in the year ended June 30, 2013.

*First Tower Holdings of Delaware, LLC*

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 170 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower, LLC ("First Tower") businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First

Table of Contents

Tower's businesses. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. During the three months ended December 31, 2012, we funded an additional \$20,000 of senior secured debt to support seasonally high demand during the holiday season. As of June 30, 2013, First Tower had total assets of approximately \$605,783 including \$378,327 of finance receivables net of unearned charges. As of June 30, 2013, First Tower's total debt outstanding to parties senior to us was \$264,760.

Due to a reduction in public market comparables in the consumer finance industry, the Board of Directors set the fair value of our investment in First Tower at \$298,084 as of June 30, 2013, a discount of \$9,869 to its amortized cost, compared to \$287,953 as of June 30, 2012, equal to its amortized cost at that time.

*Manx Energy, Inc.*

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing them under new management, restructuring the outstanding debt, and infusing additional capital to allow for future growth. Coalbed is the owner of 100% of the outstanding equity interests of Coalbed Pipelines, LLC and Coalbed Operator, LLC. Coalbed was formed in October 2009 to acquire our outstanding senior secured loan and assigned interests in Conquest Cherokee, LLC ("Conquest"). Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of \$750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests and associated operating company debt of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us.

During the quarter ended June 30, 2013, we determined that the impairment of Manx was other-than-temporary and recorded a realized loss of \$9,397 for the amount that the amortized cost exceeded the fair market value. The Board of Directors set the fair value of our investment in Manx at \$346 as of June 30, 2013, a reduction of \$154 from its amortized cost, compared to the \$11,028 unrealized depreciation recorded at June 30, 2012.

*The Healing Staff, Inc.*

During the three months ended December 31, 2012, we determined that the impairment of Integrated Contract Services, Inc. ("ICS") was other-than-temporary and recorded a realized loss of \$12,198 for the amount that the amortized cost exceeded the fair market value. Our remaining investments are in THS and Vets Securing America ("VSA"), wholly owned subsidiaries of ICS with ongoing operations. THS provides outsourced medical staffing services to governmental and

Table of Contents

commercial enterprises. VSA provides out-sourced security guards staffed primarily using retired military and police department veterans.

During September and October 2007, we provided \$1,170 to THS for working capital through our investment in ICS. In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS. As part of its strategy to diversify its revenues THS started VSA as a new business in the latter part of 2009. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. Effective October 19, 2011, the closing date of the sale by VSA of a commercial real estate asset, \$893 of the follow-on secured debt investments were repaid. In early May 2012, we made short-term secured debt investments of \$118 and \$42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. We made no additional fundings during the six months ended June 30, 2012 and the fiscal year ended June 30, 2013. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

Based upon an analysis of the liquidation value of assets, our Board of Directors determined the fair value of our investment in THS and VSA to be zero at June 30, 2013 and June 30, 2012, respectively, a reduction of \$3,831 and \$3,750 from its amortized cost, respectively.

*Wolf Energy Holdings, Inc.*

Wolf is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by Manx, were assigned to Wolf effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J") merged with and into Wolf, with Wolf as the surviving entity. At the time of the merger, C&J held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

On April 15, 2013, assets previously held by H&M were assigned to Wolf in exchange for a \$66,000 term loan secured by the assets. Our cost basis in this loan of \$44,632 was determined in accordance with ASC 310-40, *Troubled Debt Restructurings by Creditors*, and is equal to the fair value of assets at the time of transfer and we recorded a realized loss of \$19,647 in connection with the foreclosure on the assets. On May 17 2013, Wolf sold certain of the assets that had been previously held by H&M that were located in Martin County to Hibernia for \$66,000. Proceeds from the sale were primarily used to repay the loan and NPI receivable due to us and we recognized as a realized gain of \$11,826 partially offsetting the previously recorded loss. We received \$3,960 of structuring and advisory fees from Wolf during the year ended June 30, 2013 related to the sale and \$991 under the NPI agreement which was recognized as other income during the fiscal year ended June 30, 2013.

Based on an increase in the liquidation value of Wolf due to the acquisition of assets previously held by H&M, the Board of Directors increased the fair value of our investment in Wolf to \$4,949 as of June 30, 2013, a reduction of \$3,091 from its amortized cost, compared to the \$7,991 unrealized depreciation recorded at June 30, 2012.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Two of our portfolio companies,

Table of Contents

Ajax and First Tower Delaware, experienced such volatility and experienced fluctuations in valuation during the year ended June 30, 2013. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax decreased to zero as of June 30, 2013, a discount of \$6,057 to its cost, compared to the \$11,134 unrealized gain recorded at June 30, 2012. The valuation of First Tower Delaware decreased due to change in current market conditions. The value of our equity position in First Tower decreased to \$33,324 as of June 30, 2013, a discount of \$9,869 to its cost, compared to the value of \$43,193 recorded at June 30, 2012, equal to its cost. Six of the other controlled investments have been valued at discounts to the original investment. Eight of the control investments are valued at the original investment amounts or higher. Overall, at June 30, 2013, the control investments are valued at \$18,517 below their amortized cost.

We hold three affiliate investments at June 30, 2013. One of our affiliate portfolio companies, Boxercraft, experienced a meaningful decrease in valuation during the year ended June 30, 2013 due to declining operating results. As of June 30, 2013, Boxercraft is valued at \$9,385, a reduction of \$7,375 to its amortized cost. Overall, at June 30, 2013, affiliate investments are valued at \$6,746 below their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of June 30, 2013 and June 30, 2012, four of our Non-control/Non-affiliate investments, ICON Health & Fitness, Inc. ("ICON"), Gulf Coast Machine & Supply Company ("Gulf Coast"), Stryker Energy, LLC ("Stryker") and Wind River Resources Corp. and Wind River II Corp. ("Wind River"), are valued at a significant discount to amortized cost, due to significant decreases in the operating results of the operating companies. Overall, at June 30, 2013, other Non-control/Non-affiliate investments are valued at \$8,427 above their amortized cost, excluding our investments in ICON, Gulf Coast, Stryker and Wind River, as the remaining companies are generally performing as or better than expected.

**Capitalization**

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012, August 2012 and December 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® amounts and outstanding borrowings at June 30, 2013 and June 30, 2012:

	As of June 30, 2013		As of June 30, 2012	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 552,500	\$ 124,000	\$ 492,500	\$ 96,000
Senior Convertible Notes	\$ 847,500	\$ 847,500	\$ 447,500	\$ 447,500
Senior Unsecured Notes	\$ 347,725	\$ 347,725	\$ 100,000	\$ 100,000
InterNotes®	\$ 363,777	\$ 363,777	\$ 20,638	\$ 20,638

S-58

## Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

### Table of Contents

The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at June 30, 2013:

	Total	Payments Due by Period			After 5 Years
		Less than 1 year	1 - 3 Years	3 - 5 Years	
Revolving Credit Facility	\$ 124,000	\$	\$	\$ 124,000	\$
Senior Convertible Notes	847,500		150,000	297,500	400,000
Senior Unsecured Notes	347,725				347,725
InterNotes®	363,777				363,777
<b>Total contractual obligations</b>	<b>\$ 1,683,002</b>	<b>\$</b>	<b>\$ 150,000</b>	<b>\$ 421,500</b>	<b>\$ 1,111,502</b>

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock, subscription rights, and warrants and units to purchase such securities in an amount up to \$3,000,000 less issuances to date. As of June 30, 2013, we can issue up to \$1,743,217 of additional debt and equity securities in the public market under this shelf registration. We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

#### *Revolving Credit Facility*

On June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through PCF (the "2010 Facility"). The 2010 Facility, which had \$325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the 2010 Facility to accept up to an aggregate total of \$400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility was used or 100 basis points otherwise.

On March 27, 2012, we renegotiated the 2010 Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$552,500 under the 2012 Facility as of June 30, 2013. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At June 30, 2013, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility

Table of Contents

equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of June 30, 2013 and June 30, 2012, we had \$473,508 and \$418,980, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was \$124,000 and \$96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$552,500. At June 30, 2013, the investments used as collateral for the 2012 Facility had an aggregate market value of \$833,310, which represents 31.4% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF, a bankruptcy remote special purpose entity and our wholly-owned subsidiary, holds all of these investments at market value as of June 30, 2013. The release of any assets from PCF requires the approval of the facility agent.

In connection with the origination and amendments of the 2012 Facility, we incurred \$11,150 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$6,722 remains to be amortized as of June 30, 2013.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$9,082, \$14,883 and \$8,507 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

*Senior Convertible Notes*

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 88.0902 and 88.1429 shares of common stock, respectively, per \$1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (December 21, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes is increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 78.3699 and 78.5395 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.73 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (February 14, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

Table of Contents

On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately \$126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 85.8442 and 86.1162 shares of common stock, respectively, per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.61 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2013 was last calculated on the anniversary of the issuance (April 16, 2012) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.07 per share of common stock, subject to adjustment in certain circumstances. The conversion price was adjusted on August 14, 2013 and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101600 per share.

On December 21, 2012, we issued \$200,000 in aggregate principal amount of 5.875% senior convertible notes due 2019 (the "2019 Notes") for net proceeds following underwriting and other expenses of approximately \$193,600. Interest on the 2019 Notes is paid semi-annually in arrears on January 15 and July 15, at a rate of 5.875% per year, commencing July 15, 2013. The 2019 Notes mature on January 15, 2019 unless converted earlier. The 2019 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2013 of 79.7766 shares of common stock per \$1 principal amount of 2019 Notes, which is equivalent to a conversion price of approximately \$12.54 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (December 21, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2019 Notes is increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.110025 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1 principal amount of the 2015 Notes (the "conversion rate cap"), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the "Guidance") permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

Table of Contents

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate of the 2015 Notes increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the 2015 Notes and 2016 Notes (collectively, "Senior Convertible Notes").

No holder of Senior Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or redemption of the Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Notes upon a fundamental change at a price equal to 100% of the principal amount of the Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, upon a fundamental change that constitutes a non-stock change of control we will also pay holders an amount in cash equal to the present value of all remaining interest payments (without duplication of the foregoing amounts) on such Senior Convertible Notes through and including the maturity date.

In connection with the issuance of the Senior Convertible Notes, we incurred \$27,032 of fees which are being amortized over the terms of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$20,254 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities as of June 30, 2013.

During the years ended June 30, 2013, June 30, 2012 and June 30, 2011, we recorded \$45,878, \$22,197 and \$9,090 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

*Senior Unsecured Notes*

On May 1, 2012, we issued \$100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

On March 15, 2013, we issued \$250,000 in aggregate principal amount of 5.875% senior unsecured notes due 2023 (the "2023 Notes") for net proceeds following underwriting and other expenses of approximately \$245,885. Interest on the 2023 Notes is paid semi-annually. The 2023 Notes matured on March 15, 2023. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.



Table of Contents

In connection with the issuance of the 2022 Notes and 2023 Notes (collectively the "Senior Unsecured Notes"), we incurred \$7,480 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$7,114 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the years ended June 30, 2013 and June 30, 2012, we recorded \$11,672 and \$1,178 of interest costs and amortization of financing costs on the Senior Unsecured Notes as interest expense, respectively.

*Prospect Capital InterNotes®*

On February 16, 2012, we entered into a Selling Agent Agreement (the "Selling Agent Agreement") with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the "InterNotes® Offering"), which was subsequently increased to \$1,000,000. Additional agents appointed by us from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

These notes are direct unsecured senior obligations and will rank equally with all of our unsecured senior indebtedness outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

During the year ended June 30, 2013, we issued \$343,139 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$334,243. These notes were issued with stated interest rates ranging from 3.28% to 6.63% with a weighted average rate of 5.59%. These notes mature between July 15, 2019 and June 15, 2043.

Edgar Filing: COMMUNITY BANK SYSTEM INC - Form 13F-HR

Table of Contents

The bonds outstanding as of June 30, 2013 are:

<b>Date of Issuance</b>	<b>Principal Amount</b>	<b>Interest Rate Range</b>	<b>Weighted Average Interest Rate</b>	<b>Maturity Date</b>
March 1, 2012 - March 8, 2012	\$ 5,465	6.90% - 7.00%	6.97%	March 15, 2022
April 5, 2012 - April 26, 2012	8,516	6.50% - 6.85%	6.72%	April 15, 2022
June 14, 2012	2,657	6.95%	6.95%	June 15, 2022
June 28, 2012	4,000	6.55%	6.55%	June 15, 2019
July 6, 2012 - July 26, 2012	20,928	6.20% - 6.45%	6.31%	July 15, 2019
August 2, 2012 - August 23, 2012	17,545	6.05% - 6.15%	6.09%	August 15, 2019
September 7, 2012 - September 27, 2012	29,406	5.85% - 6.00%	5.92%	September 15, 2019
October 4, 2012	7,172	5.70%	5.70%	October 19, 2019
November 23, 2012 - November 29, 2012	13,754	5.00% - 5.13%	5.09%	November 15, 2019
November 29, 2012	1,979	5.75%	5.75%	November 15, 2032
November 23, 2012 - November 29, 2012	16,437	6.50% - 6.63%	6.58%	November 15, 2042
December 6, 2012 - December 28, 2012	9,339	4.50% - 4.86%	4.73%	December 15, 2019
December 6, 2012	1,127	5.63%	5.63%	December 15, 2032
December 13, 2012 - December 28, 2012	3,702	5.00% - 5.13%	5.11%	December 15, 2030
December 6, 2012 - December 28, 2012	22,966	6.00% - 6.38%	6.21%	December 15, 2042
January 4, 2013 - January 31, 2013	4,427	4.00% - 4.375%	4.15%	January 15, 2020
January 4, 2013 - January 31, 2013	2,388	4.50% - 4.875%	4.74%	January 15, 2031
January 4, 2013 - January 31, 2013	9,338	5.50% - 5.875%	5.63%	January 15, 2043
February 4, 2013 - February 28, 2013	2,619	4.00%	4.00%	February 15, 2031
February 4, 2013 - February 28, 2013	664	4.50%	4.50%	February 15, 2031
February 4, 2013 - February 28, 2013	4,623	5.50%	5.50%	February 15, 2043
March 4, 2013 - March 28, 2013	3,832	4.00%	4.00%	March 15, 2020
March 4, 2013 - March 28, 2013	984	4.125% - 4.50%	4.24%	March 15, 2031
March 4, 2013 - March 28, 2013	4,308	5.50%	5.50%	March 15, 2043
March 14, 2013 - March 28, 2013	1,225	L+3.00%	3.27%	March 15, 2023
April 4, 2013 - April 25, 2013	29,528	4.50% - 5.00%	4.96%	April 15, 2020
April 4, 2013 - April 25, 2013	264			