

COMMUNITY BANK SYSTEM INC
Form DEF 14A
March 25, 2010

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

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to § 240.14a-12

Community Bank System, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: _____

(2) Form, Schedule or Registration Statement No.: _____

(3) Filing Party: _____

(4) Date Filed: _____

COMMUNITY BANK SYSTEM, INC.
5790 Widewaters Parkway
DeWitt, New York 13214-1883

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

March 25, 2010

To the Shareholders of Community Bank System, Inc.:

At the direction of the Board of Directors of Community Bank System, Inc., a Delaware corporation (the "Company"), NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of the Company (the "Meeting") will be held at 1:00 p.m. on Wednesday, April 28, 2010 at Shadowbrook Inn & Resort, 615 State Route 6, Tunkhannock, Pennsylvania, for the following purposes:

1. To elect eight directors to the Board of Directors for stated terms;
2. To ratify the appointment of PricewaterhouseCoopers LLP as independent auditor for 2010; and
3. To transact any other business which may properly come before the Meeting or any adjournment thereof.

By Order of the Board of Directors

Donna J. Drengel
Secretary

IMPORTANT NOTICE

Whether or not you plan to attend the Annual Meeting, please vote your shares by one of the following methods as soon as possible: (1) a toll-free telephone call, (2) the Internet, or (3) the enclosed proxy in the postage paid envelope provided. If you hold shares through a broker or other custodian, please complete the voting instructions of that broker or custodian. Please note that this year the rules that guide how brokers vote your stock have changed. Brokers may no longer vote your shares on the election of directors in the absence of your specific instructions as to how to vote. Please vote your shares so your vote can be counted.

COMMUNITY BANK SYSTEM, INC.
5790 Widewaters Parkway

DeWitt, New York 13214-1883

PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS, APRIL 28, 2010

This Proxy Statement is furnished as part of the solicitation of proxies by the Board of Directors (the "Board") of Community Bank System, Inc. (the "Company"), the holding company for Community Bank, N.A. (the "Bank"), for use at the Annual Meeting of Shareholders of the Company (the "Meeting") to be held at 1:00 p.m. on Wednesday, April 28, 2010, at Shadowbrook Inn & Resort, 615 State Route 6, Tunkhannock, Pennsylvania. This Proxy Statement and the form of Proxy are first being sent to Shareholders on approximately March 25, 2010.

The proxy materials relating to the 2010 Annual Meeting and the 2009 Annual Report are available on the Internet. Please go to <http://www.snl.com/irweblinkx/docs.aspx?iid=100185> to view and obtain the materials online.

VOTING RIGHTS AND PROXIES

The Board has fixed the close of business on March 11, 2010 as the record date for determining which Shareholders are entitled to notice of and to vote at the Meeting. At the close of business on the record date, 33,038,541 shares of common stock were outstanding and entitled to vote at the Meeting, which is the Company's only class of voting stock. Each share of outstanding common stock is entitled to one vote with respect to each item to come before the Meeting. The Bylaws of the Company provide that one-third of the outstanding shares of the Company, represented in person or by proxy, shall constitute a quorum at a Shareholder meeting.

If the enclosed form of Proxy is properly executed and returned to the Company prior to or at the Meeting, and if the Proxy is not revoked prior to its exercise, all shares represented thereby will be voted at the Meeting and, where instructions have been given by a Shareholder, will be voted in accordance with such instructions. An abstention by a Shareholder with respect to a matter to be voted on will be counted for purposes of determining the presence of a quorum and will have the effect of a vote cast against the matter being voted on at the Meeting. Any broker non-votes will be counted as being present for purposes of determining the presence of a quorum, but will not be counted as a vote cast on the matter being voted on at the Meeting.

Any Shareholder executing a Proxy which is solicited hereby has the power to revoke it at any time prior to its exercise. A Proxy may be revoked by giving written notice to the Secretary of the Company at the Company's address set forth above, by attending the Meeting and voting the shares of stock in person, or by executing and delivering to the Secretary a later-dated Proxy.

For beneficial owners who vote their proxies by instructing their brokers, if a shareholder instructed his or her broker or nominee to vote such shares, the beneficial owner can change his or her vote only by following the broker or nominee's instructions for doing so. Beneficial owners can only change their vote at the Meeting if they have obtained a "legal proxy" from their broker or other nominee holding the shares that confirms the beneficial ownership of the shares and gives the beneficial owner the right to vote his or her shares at the Meeting.

The Company will pay its costs relating to the solicitation of Proxies. We have retained The Altman Group, Inc., 1200 Wall Street West, Lyndhurst, New Jersey 07071 to assist in soliciting proxies for a base fee of \$6,500 plus reasonable and approved out of pocket expenses. Proxies may be solicited by officers, directors, and staff members of the Company personally, by mail, by telephone, or by other electronic means. The Company will also reimburse brokers, custodians, nominees, and fiduciaries for reasonable expenses in forwarding proxy materials to beneficial owners of our stock.

The Annual Report of the Company for the fiscal year ended December 31, 2009, incorporating the Form 10-K filed by the Company with the Securities and Exchange Commission, is being sent to Shareholders with this Proxy Statement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table provides information as of December 31, 2009 with respect to any person known by the Company to beneficially own more than 5% of the Company's outstanding stock. The information included in the table is from Schedules 13G filed with the Securities and Exchange Commission by the listed beneficial owners.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Class
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	3,026,361 (1)	9.24%
Dimensional Fund Advisors LP 1299 Ocean Avenue S a n t a M o n i c a , CA 90401	2,040,270 (2)	6.23%
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	1,666,447 (3)	5.08%

(1)

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Based on information contained in the referenced Schedule 13G filing, BlackRock, Inc. has sole voting and sole dispositive power with respect to all shares listed.

(2)Based on information contained in the referenced Schedule 13G filing, Dimensional Fund Advisors LP has sole voting power with respect to 2,007,002 shares and sole dispositive power with respect to all shares listed.

(3)Based on information contained in the referenced Schedule 13G filing, The Vanguard Group, Inc. has sole voting power with respect to 44,886 shares and sole dispositive power with respect to 1,621,561 shares.

**ITEM ONE: ELECTION OF DIRECTORS AND INFORMATION WITH
RESPECT TO DIRECTORS AND EXECUTIVE OFFICERS**

The first item to be acted upon at the Meeting is the election of eight directors, five of whom shall hold office for three years, one who will hold office for two years, and two of whom shall hold office for a term of one year and until his or her successor shall have been duly elected and qualified. Directors Nicholas A. DiCerbo, James A. Gabriel, and Charles E. Parente whose terms are scheduled to expire as of the date of the Meeting, will stand for re-election. Directors Mark J. Bolus, Neil E. Fesette, Edward S. Mucenski, John Parente, and John F. Whipple, Jr., each of whom were appointed to the Board earlier this year, will stand for election at this Meeting. The nominees receiving a plurality of the votes represented in person or by proxy at the Meeting will be elected directors.

All Proxies in proper form which are received prior to the election of directors at the Meeting will be voted "FOR" the nominees listed below, unless authority is withheld in the space provided on the enclosed Proxy. In the event any nominee declines or is unable to serve, the proxy agents intend to vote for the election of a successor nominee, if any, as the Board may recommend. All nominees have indicated a willingness to serve, and the Board knows of no reason to believe that any nominee will decline or be unable to serve if elected. The fifteen members of the Board whose terms will continue beyond the Meeting (including the nominees for election at the Meeting, if elected) are expected to continue to serve on the Board until their respective terms expire or until they reach the mandatory retirement age in accordance with the Company's Bylaws.

For each nominee standing for election at the Meeting and for each director of the Company whose term of office continues after the Meeting, the Nominating and Corporate Governance Committee considered the business experience set forth in the table below, as well as the additional qualifications set forth in the section "Qualifications of Directors," to determine that such director is qualified to serve on the Board.

NOMINEES FOR DIRECTOR AND DIRECTORS CONTINUING IN OFFICE

Name and Age (a)	Director of the Company Since	Business Experience During Past Five Years (b)	Shares of Company Common Stock Beneficially Owned (c) as of March 11, 2010 (d)	Number (e)	Percent
Nominees (for terms to expire at Annual Meeting in 2013):					
Nicholas A. DiCerbo Age 63	1984	Attorney, law firm of DiCerbo and Palumbo, Olean, New York.		305,607 (f)	.92%
James A. Gabriel Age 62	1984	Attorney, law firm of Franklin & Gabriel, Ovid, New York.		171,507	.52%

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Charles E. Parente Age 69	2004	Chief Executive Officer of Pagnotti Enterprises, Inc., a diversified holding company whose primary business includes workers' compensation insurance, real estate, anthracite coal mining preparation and sales; Chairman of CP Media, LLC, owner and operator of broadcast television stations.	423,790 (f)	1.28%
Mark J. Bolus Age 44	2010	President and Chief Executive Officer of Bolus Motor Lines, Inc. and Bolus Freight Systems, Inc., a regional trucking company in Scranton, Pennsylvania.	50,123(f)	*
Edward S. Mucenski Age 62	2010	Managing Director of the Pinto, Mucenski, Hooper, VanHouse & Co., P.C., Certified Public Accountants, a firm located in Potsdam, New York that provides accounting, tax and financial services.	4,692(f)	*

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Name and Age (a)	Director of the Company Since	Business Experience During Past Five Years (b)	Shares of Company Common Stock Beneficially Owned (c) as of March 11, 2010 (d)	
			Number (e)	Percent
Nominees and Directors (for term to expire at Annual Meeting in 2011)				
John Parente Age 43	2010	Chief Executive Officer of CP Media, LLC, an owner and operator of broadcast television stations located in Wilkes-Barre, Pennsylvania since April 1, 2007. Previously served as Chief Executive Officer of Kem Plastic Playing Cards, Inc. (1997-2003).	79,433(f)	*
John F. Whipple, Jr. Age 54	2010	Chief Executive Officer of Buffamante Whipple Buttafaro, P.C., a regional certified public accounting and business advisory firm with offices in Olean, Jamestown and Orchard Park, New York.	69(f)	*
Brian R. Ace Age 55	2003	Owner and operator of Laceyville Hardware, a full service home product retail store in Laceyville, Pennsylvania.	81,383 (f)	.25%
	2001			.51%

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Paul M. Cantwell, Jr. Age 68		Attorney, law firm of Cantwell & Cantwell, Malone, New York; Chair of the Board of the Company.	168,253 (f)	
James W. Gibson, Jr. Age 63	2009	Prior to retirement in September 2004, partner at the firm of KPMG, LLP in New York, New York providing accounting, auditing and other related services to financial institutions and businesses in the New York area.	11,793	*

Name and Age (a)	Director of the Company Since	Business Experience During Past Five Years (b)	Shares of Company Common Stock Beneficially Owned (c) as of March 11, 2010 (d)	
			Number (e)	Percent
Nominees and Directors (for term to expire at Annual Meeting in 2012)				
Neil E. Fesette Age 44	2010	President and Chief Executive Officer of Fesette Realty, LLC and Fesette Property Management in Plattsburgh, New York specializing in residential and commercial brokerage, property management, and real estate investment, development and consultation.	85(f)	*
David C. Patterson Age 68	1991	President and owner of Wight and Patterson, Inc., manufacturer and seller of livestock feed in Canton, New York.	144,972 (f)	.44%
Sally A. Steele Age 54	2003	Attorney, general practice with concentration in real estate and elder law, Tunkhannock, Pennsylvania.	89,762 (f)	.27%
Mark E. Tryniski Age 49	2006	President and Chief Executive Officer of the Company. Prior service with the Company as Executive Vice President and Chief Operating Officer (March 2004 -July 2006) and Executive Vice President and Chief Financial Officer (July 2003 - February 2004). Prior to	184,780	.56%

2003, partner at the firm of PricewaterhouseCoopers LLP in Syracuse, New York.

James A.
Wilson
Age 64

2009

Prior to retirement in April 2008, principal at the accounting firm of Parente Randolph, LLC in Wilkes-Barre, Pennsylvania providing accounting, auditing and other related services to financial and business institutions throughout Pennsylvania.

13,293

*

Name and Age (a)	Business Experience During Past Five Years (b)	Shares of Company Common Stock Beneficially Owned (c) as of March 11, 2010 (d)	
		Number (e)	Percent
The following information summarizes the security ownership of the named executive officers of the Bank who are not directors:			
Scott A. Kingsley Age 45	Executive Vice President, Chief Financial Officer. Prior to August 2004, Vice President and Chief Financial Officer of Carlisle Engineered Products, Inc.	83,623	.25%
Brian D. Donahue Age 54	Executive Vice President and Chief Banking Officer	106,069	.32%
George J. Getman Age 53	Executive Vice President and General Counsel. Prior to January 2008, member of Bond, Schoeneck & King, PLLC	25,243	*
J. David Clark Age 56	Senior Vice President and Chief Credit Officer	82,600	.25%
Number of shares of Company common stock beneficially owned by all directors, persons chosen to become directors and executive officers of the Company as a group (19 persons)		2,027,076	5.98%

* Represents less than .25% of the Company's outstanding shares.

(a) No family relationships exist between any of the named directors or executive officers of the Company with the exception that Charles E. Parente is the father of John Parente. Mr. Charles E. Parente will be retiring from the Board on December 31, 2010 in accordance with the Company's mandatory retirement policy.

(b) Other than Mr. Tryniski, who has served as a director of CONMED Corporation since 2007, and Mr. Charles E. Parente, who has served as a director of W.P. Carey & Co. LLC since 2006, no nominee or continuing director of

the Company holds a directorship with any public company (other than the Company) which is registered under the Securities Exchange Act of 1934, or with any company which is a registered investment company under the Investment Company Act of 1940.

- (c) Represents all shares as to which the named individuals possessed sole or shared voting or investment power as of March 11, 2010. Includes shares held by, in the name of, or in trust for, the spouse and dependent children of the named individual and other relatives living in the same household, even if beneficial ownership has been disclaimed as to any of these shares by the nominee or director. The share ownership numbers for certain directors include shares that would be issuable upon exercise of "Offset Options" granted to these directors in order to reduce the Company's liability under its Stock Balance Plan. The purpose of the Offset Options is explained in the section entitled "Compensation of Directors." See footnote "(e)" to the Nominees for Directors and Directors Continuing in Office table for the number of currently exercisable stock options (including, without limitation, Offset Options) held by specific directors.
- (d) The listed amounts include shares as to which certain directors and named executive officers are beneficial owners but not the sole beneficial owners as follows: Mr. Ace holds 4,328 shares jointly with his wife, his wife holds 121 shares, and 16,957 shares are held in the name of Laceyville Hardware, of which Mr. Ace is owner; Mr. Bolus holds 36,823 shares jointly with his wife, 5,000 shares as Trustee of the Mark Bolus Trust, and his children hold 680 shares; Mr. Cantwell's wife holds 10,450 shares; Mr. Clark holds 6,137 shares with his wife and is the beneficial owner of 10,859 shares held by the Company's 401(k) Plan; Mr. DiCerbo holds 72,843 shares jointly with his wife, 777 shares are held in his wife's IRA account, and 106,723 shares are held in the name of the law partnership of DiCerbo and Palumbo; Mr. Donahue is the beneficial owner of 5,947 shares held by the Company's 401(k) Plan; Mr. Getman's wife holds 895 shares and he is the beneficial owner of 792 shares held by the Company's 401(k) Plan; Mr. Kingsley is the beneficial owner of 593 shares held by the Company's 401(k) Plan; Mr. Mucenski holds 1,589 shares jointly with his wife and 3,103 shares are held in his 401(k) account; Mr. Charles E. Parente is the beneficial owner of 21,000 shares held by the C.E. Parente Trust U/A, his wife holds 3,000 shares, and 348,000 shares are held by a partnership controlled by Mr. Charles E. Parente; Mr. John Parente's children hold 52,500 shares; Mr. Patterson holds 4,160 shares jointly with his wife, 3,990 shares as Trustee for the Wight and Patterson Profit Sharing Plan, and his wife holds 179 shares in her IRA account; Ms. Steele holds 41,570 shares jointly with her husband, 1,520 shares are held in Ms. Steele's 401(k) account, and 1,202 shares are held in Ms. Steele's simplified employee pension plan; and Mr. Tryniski is the beneficial owner of 6,474 shares held by the Company's 401(k) Plan.
- (e) Includes shares that the following individuals currently have the right to acquire, or will have the right to acquire within 60 days of March 11, 2010, through exercise of stock options issued by the Company: Mr. Ace, 45,470 shares; Mr. Bolus, 0 shares; Mr. Cantwell, 53,095 shares; Mr. Clark, 56,157 shares; Mr. DiCerbo, 89,173 shares; Mr. Donahue, 80,376 shares; Mr. Fesette, 0 shares; Mr. Gabriel, 93,927 shares; Mr. Getman, 14,402 shares; Mr. Gibson, 9,293 shares; Mr. Kingsley, 71,254 shares; Mr. Mucenski, 0 shares; Mr. Charles E. Parente, 37,754 shares; Mr. John Parente, 0 shares; Mr. Patterson, 101,409 shares; Ms. Steele, 45,470 shares; Mr. Tryniski, 140,981 shares; Mr. Whipple, 0 shares; and Mr. Wilson, 9,293 shares. These shares are included in the total number of shares outstanding for the purpose of calculating the percentage ownership of the foregoing individuals and of the group as a whole, but not for the purpose of calculating the percentage ownership of other individuals listed in the foregoing table.
- (f) In addition to the number of shares of common stock reported as beneficially owned, the following directors have elected to defer cash director fees under the director deferred compensation plan resulting in such directors holding at risk share equivalent units, which are subject to fluctuations in the market price of the Company's stock, in the following amounts as of December 31, 2009: Mr. Ace, 14,613 units; Mr. Bolus 2,498 units; Mr. Cantwell, 4,929 units; Mr. DiCerbo, 44,035 units; Mr. Fesette 1,422 units; Mr. Mucenski 1,442 units; Mr. Charles E. Parente, 3,526 units; Mr. John Parente 1,934 units; Mr. Patterson, 14,783 units; Ms. Steele, 13,593 units; and Mr. Whipple 2,662 units.

CORPORATE GOVERNANCE

The Company maintains a corporate governance section on its website which contains our principal governance documents including the Company's Corporate Governance Guidelines, Codes of Conduct applicable to directors, executive officers and employees, the Company's Whistleblower Policy, and the Committee Charters for the Audit Committee, Compensation Committee, and the Nominating and Corporate Governance Committee. These corporate governance documents are available on our website at www.communitybankna.com under the heading "Investor Relations – Corporate Information," or a copy will be provided to any shareholder who requests a copy from the Company.

Director Independence

The New York Stock Exchange ("NYSE") listing standards and the Company's Corporate Guidelines require the Board of Directors to be comprised of at least a majority of independent directors. The Board has determined that 13 of the 15 directors nominated to serve on the Board or continuing in office after the Meeting are independent under the NYSE standards and the Company's Corporate Governance Guidelines.

For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with the Company. To assist it in determining director independence, the Board uses standards which conform to, or are more exacting than, the NYSE independence requirements. Under these standards, absent other material relationships, transactions or interests, a director will be deemed to be independent unless within the preceding three years: (i) the director was employed by the Company or received more than \$120,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation payments for prior service, (ii) the director was a partner of or employed by the Company's independent auditor, (iii) the director is part of an interlocking directorate in which an executive officer of the Company serves on the Compensation Committee of another company that employs the director, (iv) the director is an executive officer or employee of another company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any fiscal year, exceeds the greater of one million dollars or 2% of the other company's consolidated gross revenues, or (v) the director had an immediate family member in any of the categories in (i) – (iv). In determining whether a director is independent, the Board reviews the stated standards but also considers whether a director has any direct or indirect material relationships, transactions or interests with the Company that might be viewed as interfering with the exercise of his or her independent judgment.

Based on these independence standards, the Board determined that the following individuals who served as directors during all or part of the last fiscal year were independent director during such year and continue to be deemed independent by the Board: Brian R. Ace, Paul M. Cantwell, Jr., James A. Gabriel, James W. Gibson, Jr., Charles E. Parente, David C. Patterson, Sally A. Steele, and James A. Wilson. The Board has also determined that Mark J. Bolus, Neil E. Fesette, Edward S. Mucenski, John Parente, and John F. Whipple, Jr. are independent directors.

In reviewing the independence of Paul M. Cantwell, Jr., Neil E. Fesette, James A. Gabriel, and Sally A. Steele, the Board considered the transactions described in the section entitled "Transactions with Related Persons." The Board determined that the disclosed transactions were at market terms and pricing, consistent with the best interests of the Company and, based on the nature of the transactions, would not interfere with the exercise of such director's independent judgment.

Board Leadership Structure

The Company's long-standing policy is to have an outside independent director serve as Chair of the Board and preside over all meetings of the Board, ensuring a separation in the position of Chair of the Board and Chief Executive Officer. The Chair of the Board also serves as a non-voting ex officio member of Board Committees, except for the Audit Committee, for purposes of enhancing coordination of Board oversight and communication with management. Similar to the Committee Chair positions, Chair of the Board is subject to a four year term limit providing for continuous development of strong and independent leadership qualities on the Board.

Executive Sessions

Pursuant to the Company's Corporate Governance Guidelines, the independent directors meet in executive sessions during Board and Committee meetings as appropriate, without the Company's management and non-independent directors present, to facilitate full discussion of important matters. The director who presides over these executive sessions is determined by the Board on the recommendation of the Nominating and Corporate Governance Committee.

Board Committees

Among its standing committees, the Company has an Audit Committee, Compensation Committee and a Nominating and Corporate Governance Committee. As described more fully in the Audit Committee Report contained in this Proxy Statement, the Audit Committee reviews internal and external audits of the Company and the Bank and the adequacy of the Company's and the Bank's accounting, financial, and compliance controls, and selects the Company's independent auditors. The Audit Committee held eight meetings during 2009, and its present members are Directors Charles E. Parente (Chair), Brian R. Ace, James W. Gibson, Jr., and James A. Wilson.

The Company's Compensation Committee reviews and makes recommendations to the Company's and the Bank's Boards regarding compensation adjustments and employee benefits to be instituted. As described more fully in the section entitled "Compensation of Executive Officers," the Compensation Committee reviews the compensation of nonofficer employees in the aggregate, and the salaries and performance of executive officers are reviewed individually. The Compensation Committee held five meetings in 2009, and its present members are Directors Brian R. Ace (Chair), James A. Gabriel, Charles E. Parente, David C. Patterson, and Sally A. Steele.

The Company's Nominating and Corporate Governance Committee evaluates and maintains corporate governance policies and makes recommendations to the Board for nominees to serve as directors. The Nominating and Corporate Governance Committee will consider written recommendations from Shareholders for nominees to serve on the Board that are sent to the Secretary of the Company at the Company's main office. The Nominating and Corporate Governance Committee held two meetings in 2009, and its present members are Directors Sally A. Steele (Chair), James A. Gabriel, and David C. Patterson. The Board has determined that each of the Nominating and Corporate Governance Committee's members is independent as defined by the NYSE Rules. The Nominating and Corporate Governance Committee has adopted a written charter setting forth its composition and responsibilities, a copy of which is available at the Company's website at www.communitybankna.com and in print to any Shareholder who requests it.

The President and Chief Executive Officer of the Company serves as a non-voting ex officio member of all Board committees except the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee, and receives no compensation for serving in this capacity.

Qualification of Directors

In considering candidates for the Board, the Nominating and Corporate Governance Committee and the Board consider the entirety of each candidate's credentials and do not have any specific minimum qualifications that must be met by a nominee. Factors considered include, but are not necessarily limited to, outstanding achievement in a candidate's personal career; broad and relevant experience; integrity; sound and independent judgment; experience and knowledge of the business environment and markets in which the Company operates; business acumen; and willingness to devote adequate time to Board duties. The Nominating and Corporate Governance Committee considers diversity, but does not have a specific policy, in the context of the Board as a whole including personal characteristics, experience and background of directors and nominees to facilitate Board deliberations that reflect a broad range of perspectives. The Board believes that each director should have an understanding of (i) the principal operational and financial objectives and plans and strategies of the Company, (ii) the results of operations and financial condition of the Company and of any significant subsidiaries or business segments, and (iii) the relative standing of the Company and its business segments in relation to its competitors. Prior to nominating an existing director for re-election to the Board, the Board and the Nominating and Corporate Governance Committee consider and review, among other relevant factors, the existing director's meeting attendance and performance, length of Board service, ability to meet regulatory independence requirements, and the experience, skills, and contributions that the director brings to the composition of the Board as a whole.

In selecting directors and nominees to serve on the Company's Board, the Nominating and Corporate Governance Committee considered each individual's business experience set forth in the table starting on page 3 and the foregoing qualifications. In addition, the Nominating and Corporate Governance Committee considered each individual's experience and knowledge of the banking and financial services industry, knowledge of and standing in key geographic markets in which the Company operates, experience and knowledge with the organization, business model and strategic plans related to the Company's success, independence in judgment and regulatory standards, special skills relevant to overall composition of the Board, including financial and accounting expertise, service with public companies, and experience in real estate and commercial finance. The Nominating and Corporate Governance Committee and the Board believe that each director and nominee brings his or her own particular expertise, knowledge and experience that provides the Board as a whole with the appropriate mix of skills, characteristics and attributes to work together and fulfill the Board's oversight responsibilities to the Company's shareholders.

The Company's Bylaws and Corporate Governance Guidelines provide for (i) a mandatory retirement age of 70, (ii) advance notice prior to serving on another public company board, and (iii) review of continued board membership in the event of a significant change in the responsibilities or job position of a director.

Communication with Directors

Shareholders and any interested parties may communicate directly with the Board of the Company by sending correspondence to the address shown below. The receipt of any such correspondence addressed to the Board and the nature of its content will be reported at the next Board meeting and appropriate action, if any, will be taken. If a Shareholder or an interested party desires to communicate with a specific director, the correspondence should be addressed to that director. Correspondence addressed to a specific director will be delivered to the director promptly after receipt by the Company. The director will review the correspondence received and, if appropriate, report the receipt of the correspondence and the nature of its content to the Board at its next meeting, so that the appropriate action, if any, may be taken.

Correspondence should be addressed to:

Community Bank System, Inc.
Attention: [Board of Directors or Specific Director]
5790 Widewaters Parkway
DeWitt, New York 13214-1883

Stock Ownership Guidelines

The Board has adopted stock ownership guidelines for senior executives of the Company. The guidelines require (i) the Chief Executive Officer to own shares of Company common stock and share equivalents equal to the lesser of two times his base salary or 45,000 shares, and (ii) the Chief Financial Officer and other Executive Vice Presidents to own shares of common stock or share equivalents equal to the lesser of one times their base salary or 15,000 shares. Senior executive officers are required to retain shares received from stock option exercises or other equity awards, net of taxes, until they have satisfied the equity ownership requirements. All executives subject to the requirements are in compliance with the guidelines or are anticipated to achieve the ownership requirements within the required time period.

The Board has also adopted stock ownership guidelines for directors of the Company. The guidelines require each director to own shares of Company common stock and share equivalent units equal in value to the lesser of \$125,000 or 10,000 shares within six years of becoming a director. Under the guidelines, the qualifying share equivalent units consist of at risk units resulting from directors' deferment of cash director fees under the deferred compensation plan. In addition, new directors are required to acquire at least 2,000 shares within one year of joining the Board. All directors are in compliance with the requirements of the stock ownership guidelines or are anticipated to achieve the ownership requirements within the required time period.

Board's Role in Risk Oversight

The Company's Board performs its risk oversight function in several ways. The Board establishes standards for risk management by approving policies that address and mitigate material risks. This includes policies addressing credit risk, interest rate risk, investment risks, liquidity risks, operational risks, strategic risks and compliance/legal risks, among other matters. The Board also reviews and monitors enterprise risks through various reports presented by management, internal and external auditors and regulatory examiners.

The Board conducts certain risk oversight activities through its committees which oversees specific areas. The Audit Committee risk oversight functions include: approving and reviewing the engagements and periodic reports of the Company's independent auditor and internal audit department; reviewing periodic reports on risks related to bank compliance, information technology, credit review, security, Sarbanes-Oxley compliance, enterprise risk management, and reviewing our corporate insurance program annually. The Compensation Committee reviews and considers risks related to the Company's compensation policies, including incentive plans to determine whether these plans subject the Company to unnecessary or excessive risks. The Nominating and Corporate Governance Committee considers only director candidates with appropriate experience and temperament and continues to ensure appropriate corporate governance policies are in place. Finally, the Bank's Loan/ALCO Committee oversees and reviews periodic reports from management on lending activities, asset quality and the investment portfolio.

Compensation of Directors

As directors of both the Company and the Bank, Board members receive an annual retainer of \$25,000, \$1,250 for each Board meeting they attend, and \$1,000 for each committee meeting they attend. Any executive officer serving on the Board does not receive an annual retainer or compensation for attending Board and committee meetings. The Chair of the Board receives a retainer of \$55,000 for serving in that capacity, as well as Board meeting fees for the meetings he attends. The Chairs of the Audit Committee and the Loan/ALCO Committee receive an annual retainer of \$7,500; the Chairs of the Compensation Committee, Nominating and Corporate Governance Committee, and the Strategic/Executive Committee each receive an annual retainer of \$5,000; and the Chair of the Trust Committee receives an annual retainer of \$2,500. The Company pays the travel expenses incurred by each director in attending meetings of the Board.

The Company does not make payments (or have any outstanding commitments to make payments) to director legacy programs or similar charitable award programs. The following table summarizes the annual compensation paid to each non-employee director for his or her service to the Board and its committees in 2009.

DIRECTOR COMPENSATION

Name (1)	Fees Earned or		Change in	Total (\$)
	Paid in Cash (\$)	Option Awards (\$) (2)	Pension Value and Nonqualified Deferred Compensation Earnings (\$) (3)	
Brian R. Ace	\$63,000	\$22,304	\$1,003	\$86,307
Paul M. Cantwell, Jr.	\$76,250	\$22,304	\$6,353	\$104,907
Nicholas A. DiCerbo	\$57,250	\$22,304	\$2,950	\$82,504
James A. Gabriel	\$63,000	\$22,304	\$3,592	\$88,896
James W. Gibson, Jr.	\$44,250	\$22,304	–	\$66,554
Charles E. Parente	\$60,000	\$22,304	\$3,362	\$85,666
David C. Patterson	\$62,750	\$22,304	\$5,448	\$90,502
Sally A. Steele	\$56,500	\$22,304	\$945	\$79,749
James A. Wilson	\$46,750	\$22,304	–	\$69,054

(1) Mark E. Tryniski, President and Chief Executive Officer, does not receive any compensation for his service as a director. Mr. Tryniski's compensation is set forth in the Summary Compensation Table.

(2) The amounts in this column reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of each equity award granted in 2009 pursuant to the Company's 2004 Long-Term Incentive Compensation Program. The options vest immediately upon grant and the exercise price is \$18.08. As of

December 31, 2009, each Director had the following number of options outstanding: Mr. Ace 45,399; Mr. Cantwell 48,624; Mr. DiCerbo 103,942; Mr. Gabriel 98,696; Mr. Gibson 4,822; Mr. Charles E. Parente 33,283; Mr. Patterson 96,938; Ms. Steele 40,999; and Mr. Wilson 4,822.

- (3) The amounts in this column represent the aggregate change in the actuarial present value of the Director's Stock Balance Plan, a nonqualified plan which is described under the section entitled "Compensation of Directors." The Board, upon recommendation of the Compensation Committee, took action to freeze benefits under this plan effective December 31, 2009. No earnings are deemed above-market or preferential on compensation deferred under the Deferred Compensation Plan for the Directors. Under the Deferred Compensation Plan, a director may choose to have his or her retainer and committee fees deferred until his or her membership on the Board ends. Contributions are deemed to be invested in the Company's common stock which is deemed to earn dividends at the same rate as the Company pays actual dividends on actual shares.

Directors may elect to defer all or a portion of their director fees pursuant to a deferred compensation plan for Directors. Directors who elect to participate in the plan designate the percentage of their director fees which they wish to defer (the “deferred fees”) and the date to which they wish to defer payment of benefits under the plan (the “distribution date”). The plan administrator establishes an account for each participating director and credits to such account (i) on the date a participating director would have otherwise received payment of his or her deferred fees, the number of deferred shares of Company common stock which could have been purchased with the deferred fees, and (ii) from time to time such additional number of deferred shares which could have been purchased with any dividends which would have been received had shares equal to the number of shares credited to the account actually been issued and outstanding. On the distribution date, the participating director shall be entitled to receive shares of Company common stock equal to the number of deferred shares credited to the director’s account either in a lump sum or in annual installments over a three, five or ten year period. The effect of the plan is to permit directors to invest deferred director fees in stock of the Company, having the benefit of any stock price appreciation and dividends as well as the risk of any decrease in the stock price. To the extent that directors participate in the plan, the interests of participating directors will be more closely associated with the interests of the Shareholders in achieving growth in the Company’s stock price. Directors currently participating in the plan hold at risk share equivalent units (based on cash fees directors have deferred under the plan), which are subject to market price fluctuations in the Company’s stock in the following amounts as of December 31, 2009: Mr. Ace, 14,613 units; Mr. Cantwell, 4,929 units; Mr. DiCerbo, 44,035 units; Mr. Charles E. Parente, 3,526 units; Mr. Patterson, 14,783 units; and Ms. Steele, 13,593 units.

Consistent with aligning director compensation with the long-term interests of Shareholders, the Company’s 2004 Long-Term Incentive Compensation Program (the “2004 Incentive Plan”) allows for the issuance of Non-Statutory Stock Options to nonemployee directors. The Board believes that providing Non-Statutory Stock Options to nonemployee directors is consistent with the Company’s overall compensation philosophy by more closely aligning the interests of individual directors with the long-term interests of the Company’s Shareholders, and enabling the Company to continue to attract qualified individuals to serve on the Board.

Under the 2004 Incentive Plan, each nonemployee director is eligible to receive a stock option grant on or about January 1st of his or her first year as a director, and an option to purchase shares on or about the date of the January Board meeting each year thereafter. Each option granted to a nonemployee director is granted at an option price per share equal to the market value per share of the Company’s common stock on the date of grant, and is fully exercisable on its date of grant, provided that shares of common stock acquired pursuant to the exercise of such options may not be sold or otherwise transferred by a director within six months of the grant. Each option remains exercisable after the grant date until the earlier of (i) ten years from the date of grant, or (ii) termination of the optionee’s service on the Board for cause (as defined in the 2004 Incentive Plan). The number of shares of common stock which are subject to the option grant is based upon the performance of the Company and the achievement of objectives including earnings per share targets for the Company. Pursuant to the 2004 Incentive Plan, each eligible nonemployee director received an option to purchase 4,822 shares on January 29, 2009.

In addition, in keeping with the objective of aligning director compensation with the long-term interests of Shareholders, effective January 1, 1996, the Board adopted a “Stock Balance Plan” for nonemployee directors of the Company who have completed at least six months of service as director. The plan establishes an account for each eligible director. Amounts credited to those accounts reflect the value of 400 shares of the Company’s common stock for each year of service between 1981 and 1995 at the December 31, 1995 market value, plus an annual amount equal to 400 additional shares of common stock beginning in 1996, plus an annual earnings credit equal to the most recent year’s total return on the Company’s common stock. Each director’s account balance does not vest until completion of six years of service and is payable in the form of a lifetime annuity or, at the election of the director, monthly installment payments over a three, five, or ten year period following the later of age 55 or disassociation from the Board and is forfeitable in the event of termination from the Board for cause.

The 2004 Incentive Plan allows the grant of “Offset Options” to directors. The effect of these Offset Options is to permit the Company to reduce the grantee’s Stock Balance Plan account balance by an amount equal to the growth in value of the Offset Options (i.e., the amount by which the aggregate fair market value of the common stock underlying the Offset Options exceeds the aggregate exercise price of the Offset Options) as of the date on which the director’s account is valued, provided that a director’s account may not be reduced below zero. As such, the Offset Options are not intended to materially change the level of compensation to participating directors under the Stock Balance Plan, but were intended to reduce the cost of director compensation to the Company. In the event that the growth in value of a director’s Offset Options is less than the value of the director’s Stock Balance Plan account, the shortfall will be paid to the director in cash. In the event that the growth in value of a director’s Offset Options exceeds the value of the director’s Stock Balance Plan account, no payment will be made. The Board upon the recommendation of the Compensation Committee has frozen benefits under the Stock Balance Plan as of December 31, 2009.

Transactions With Related Persons

Various directors, executive officers and other related persons of the Company and the Bank (and members of their immediate families and corporations, trusts, and other entities with which these individuals are associated) are indebted to the Bank through business and consumer loans offered in the ordinary course of business by the Bank. All such loans were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the Bank, and did not involve more than the normal risk of collectability or present other unfavorable features. The Company expects that the Bank will continue to have banking transactions in the ordinary course of business with its directors, executive officers and other related persons on substantially the same terms, including interest rates and collateral, as those then prevailing for comparable transactions with others.

During the year ended December 31, 2009, the law firm of Franklin & Gabriel, owned by director James A. Gabriel, provided legal services to the Bank’s operations in its Finger Lakes markets; the law firm of DiCerbo and Palumbo, of which director Nicholas A. DiCerbo is a partner, provided legal services to the Bank’s operations in its Southern Region markets; the law firm of Cantwell & Cantwell, owned by Director Paul M. Cantwell, Jr., provided legal services to the Bank’s operations in its Northern Region markets; and director Sally A. Steele provided legal services and related residential loan closing services through her law firm and related entities to the Bank’s operations in its Pennsylvania markets. All of these relationships and transactions relate to the provision of legal services in connection with, and in support of, the Bank’s lending business in local and regional markets where the law firms are established and well-recognized in the communities. For services rendered during 2009 and for related out-of-pocket disbursements, the law firm of DiCerbo & Palumbo received approximately \$241,876 from the Bank for transactional and specialized commercial legal services and related loan closings with customers of the Bank. During 2009, the firms of Franklin & Gabriel, Cantwell & Cantwell, and Sally A. Steele each received less than \$100,000 from the Bank for services related to loan closings in the relevant market area. In 2009, in connection with a pre-existing arrangement, the Bank purchased advertising space from a company affiliated with Neil E. Fesette in a total amount of \$15,125. No advisory services were provided in connection with the purchase of this advertising. These relationships are expected to continue in 2010 subject to review of such relationships in accordance with the Company’s related person transaction policy. Pursuant to the terms of its written charter, the Audit Committee is responsible for reviewing and approving related party transactions involving the Company or the Bank. All of the related person transactions with the named directors were reviewed and approved by the Audit Committee after the Audit Committee determined that the transactions were performed at market terms and pricing and were consistent with the best interests of the Company.

The Company has a written policy, administered by the Audit Committee, which provides procedures for the review of related party transactions involving directors, executive officers, director nominees, and other related persons. In deciding whether to approve such related party transactions, the Audit Committee will consider, among other factors it deems appropriate, whether the transaction is on terms comparable to those generally available to nonaffiliated parties and is consistent with the best interests of the Company. For purposes of this policy, a “related party transaction” is a transaction, arrangement, or relationship or series of similar transactions, arrangements or relationships in which (i) the Company or one of its subsidiaries is involved, (ii) the amount involved exceeds \$100,000 in any calendar year, and (iii) a related party has a direct or indirect material interest. Related persons include executive officers, directors, director nominees, beneficial owners of more than 5% of the Company’s stock, immediate family members of any of the forgoing persons, and any firm, corporation or other entity in which any of the forgoing persons has a direct or indirect material interest.

Compensation Committee Interlocks and Insider Participation

Brian R. Ace, James A. Gabriel, Charles E. Parente, David C. Patterson, and Sally A. Steele served on the Compensation Committee during 2009. There were no Compensation Committee interlocks or insider (employee) participation during 2009.

Director Meeting Attendance

The Board of Directors held five regularly scheduled meetings and four special meetings during the fiscal year ended December 31, 2009. During this period, each director of the Company attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by committees of the Board on which he or she served.

The Company encourages all directors to attend each Annual Meeting of Shareholders. All of the then current directors attended the Company’s last Annual Meeting of Shareholders held on May 20, 2009.

Code Of Ethics

The Company has a Code of Ethics for its directors, officers and employees. The Code of Ethics requires that individuals avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity and in the best interests of the Company. In addition, the Code of Ethics requires individuals to report illegal or unethical behavior they observe.

The Company also has adopted a Code of Ethics for Senior Executive Officers that applies to its chief executive officer, chief financial officer, and other senior officers performing similar functions. This Code of Ethics is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws and regulations.

The text of each Code is posted on the Company’s website at www.communitybankna.com and is available in print to any Shareholder who requests it. The Company intends to report and post on its website any amendment to or waiver from any provision in the Code of Ethics for Senior Executive Officers as required by SEC rules.

COMPENSATION OF EXECUTIVE OFFICERS

Introduction; Role of the Compensation Committee

The Compensation Committee of the Board of Directors reviews and administers the Company's compensation policies and practices for the executive officers of the Company, including the individuals listed in the compensation disclosure tables (the "named executives"). The Compensation Committee consists of five members of the Board, each of whom are independent, non-employee directors.

The Compensation Committee has authority for determining the level and components of executive compensation. After appropriate input, review and discussion, the Committee presents its recommendations to the Board for its approval. The Compensation Committee does not delegate its duties to any other person but does receive input from management to structure the named executives' performance goals. The Company's Chief Human Resources Officer and the human resources staff supports the Compensation Committee's work by providing information to the Compensation Committee. At the beginning of each fiscal year, the Compensation Committee discusses the Company's performance and sets future performance goals and objectives with the President and Chief Executive Officer.

The Compensation Committee, in addition to utilizing the human resources staff and external resources, engaged the executive compensation firm of Pearl Meyer & Partners in 2009 to assist the Compensation Committee by:

- Providing peer group data and input on executive officer compensation;
- making recommendations to better correlate pay and performance for executive officer compensation;
- providing peer group data and making general recommendations regarding director compensation; and
- providing input on the design of long-term equity-based incentives and programs for executive officers and management which avoid any material risks.

The Company has not utilized any compensation consultants which were engaged by the Compensation Committee for additional or ancillary services. The Compensation Committee's written Charter is available at the Company's website www.communitybankna.com and in print to any person who requests a copy.

Compensation Discussion and Analysis

Philosophy and Objectives

The Company's ability to hire and retain talented employees and executives with the skills and experience to develop and execute business opportunities is essential to its success and providing value to its Shareholders. The Company seeks to provide fair and competitive compensation to its employees by structuring compensation principally around two general parameters. First, compensation is targeted to be near the median of the market. Second, employees are rewarded for obtaining goals designed to achieve growth in the Company's earnings and specified performance goals. As a result, selected elements of our compensation program are tied to the achievement of individual and Company performance goals.

The Compensation Committee structures the annual cash incentive and equity-based elements of the compensation program with input from senior management to promote the achievement of the Company's long-term growth goals, including targeted earnings per share ("EPS") each year. EPS is generally defined as the Company's net income divided by the weighted average number of shares outstanding during that period. EPS reflects the best measurement of the Company's performance and progress towards continuously increasing Shareholder value.

The Company's compensation program seeks to:

1. Attract, retain and motivate highly qualified executives through both short-term and long-term incentives that, where appropriate, emphasize overall corporate or group performance;
2. Provide incentives to increase Shareholder value by:
 - structuring incentive compensation on financial and non-financial performance measures tied to creation of Shareholder value, and
 - utilizing equity-based compensation to more closely align the interests of executives with those of the Company's Shareholders;
3. Manage fixed compensation costs through the use of performance and equity-based compensation which considers and avoids risks associated with incentive performance criteria by balancing performance goals and quality and sustainability of long-term earnings growth of the Company; and
4. Serve as a retention tool for key executive talent through structuring of equity compensation and vesting schedules and by rewarding executives for superior performance.

Policies and Procedures