

COMERICA INC /NEW/  
Form 10-Q  
October 29, 2007

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

(Mark One)

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

**For the quarterly period ended September 30, 2007**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-10706**

**Comerica Incorporated**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

38-1998421  
(I.R.S. Employer  
Identification No.)

Comerica Bank Tower  
1717 Main Street, MC 6404  
Dallas, Texas  
75201

(Address of principal executive offices)

(Zip Code)

(214) 969-6476

(Registrant's telephone number, including area code)

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

\$5 par value common stock:

Outstanding as of October 12, 2007: 151,018,124 shares

**COMERICA INCORPORATED AND SUBSIDIARIES  
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<u>Chairman, President &amp; CEO Certification Pursuant to Section 302</u>	
<u>Executive Vice President &amp; CFO Certification Pursuant to Section 302</u>	
<u>Section 1350 Certification of Periodic Report</u>	

**Forward-Looking Statements**

This report includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. In addition, the Corporation may make other written and oral communication from time to time that contain such statements. All statements regarding the Corporation's expected financial position, strategies and growth prospects and general economic conditions expected to exist in the future are forward-looking statements. The words, anticipates, believes, feels, expects, estimates, seeks, strives, plans, intends, outlook, forecast, position, potential, achievable, potential, strategy, goal, aspiration, outcome, continue, remain, maintain, trend, objective, of such words and similar expressions, or future or conditional verbs such as will, would, should, could, might, may or similar expressions, as they relate to the Corporation or its management, are intended to identify

forward-looking statements.

The Corporation cautions that forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date the statement is made, and the Corporation does not undertake to update forward-looking statements to reflect facts, circumstances, assumptions or events that occur after the date the forward-looking statements are made. Actual results could differ materially from those anticipated in forward-looking statements and future results could differ materially from historical performance.

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**Table of Contents****CONSOLIDATED BALANCE SHEETS***Comerica Incorporated and Subsidiaries*

<i>(in millions, except share data)</i>	<b>September 30, 2007</b> (unaudited)	<b>December 31, 2006</b>	<b>September 30, 2006</b> (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 1,271	\$ 1,434	\$ 1,456
Federal funds sold and securities purchased under agreements to resell	129	2,632	3,473
Other short-term investments	293	327	259
Investment securities available-for-sale	4,942	3,662	3,931
Commercial loans	27,392	26,265	25,755
Real estate construction loans	4,759	4,203	4,122
Commercial mortgage loans	9,994	9,659	9,485
Residential mortgage loans	1,892	1,677	1,622
Consumer loans	2,397	2,423	2,498
Lease financing	1,319	1,353	1,321
International loans	1,843	1,851	1,712
Total loans	49,596	47,431	46,515
Less allowance for loan losses	(512)	(493)	(493)
Net loans	49,084	46,938	46,022
Premises and equipment	635	568	540
Customers' liability on acceptances outstanding	39	56	64
Accrued income and other assets	3,629	2,384	2,729
Total assets	\$ 60,022	\$ 58,001	\$ 58,474
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Noninterest-bearing deposits	\$ 11,290	\$ 13,901	\$ 15,132
Money market and NOW deposits	14,814	15,250	14,711
Savings deposits	1,402	1,365	1,378
Customer certificates of deposit	8,010	7,223	7,057
Institutional certificates of deposit	5,049	5,783	5,783
Foreign office time deposits	1,355	1,405	869
Total interest-bearing deposits	30,630	31,026	29,798
Total deposits	41,920	44,927	44,930
Short-term borrowings	2,813	635	225
Acceptances outstanding	39	56	64

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Accrued expenses and other liabilities	1,267	1,281	1,292
Medium- and long-term debt	8,906	5,949	6,755
<b>Total liabilities</b>	<b>54,945</b>	<b>52,848</b>	<b>53,266</b>
Common stock \$5 par value:			
Authorized - 325,000,000 shares			
Issued - 178,735,252 shares at 9/30/07, 12/31/06 and 9/30/06	894	894	894
Capital surplus	551	520	507
Accumulated other comprehensive loss	(238)	(324)	(128)
Retained earnings	5,484	5,282	5,079
Less cost of common stock in treasury - 27,725,572 shares at 9/30/07, 21,161,161 shares at 12/31/06 and 19,892,137 shares at 9/30/06	(1,614)	(1,219)	(1,144)
<b>Total shareholders equity</b>	<b>5,077</b>	<b>5,153</b>	<b>5,208</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 60,022</b>	<b>\$ 58,001</b>	<b>\$ 58,474</b>

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME (unaudited)***Comerica Incorporated and Subsidiaries*

<i>(in millions, except per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 895	\$ 843	\$2,628	\$2,358
Interest on investment securities	52	43	140	132
Interest on short-term investments	5	7	18	20
Total interest income	952	893	2,786	2,510
<b>INTEREST EXPENSE</b>				
Interest on deposits	294	272	864	707
Interest on short-term borrowings	29	28	75	115
Interest on medium- and long-term debt	126	91	333	207
Total interest expense	449	391	1,272	1,029
Net interest income	503	502	1,514	1,481
Provision for loan losses	45	15	104	15
Net interest income after provision for loan losses	458	487	1,410	1,466
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	55	56	164	164
Fiduciary income	49	45	147	133
Commercial lending fees	19	16	52	46
Letter of credit fees	16	17	47	48
Foreign exchange income	11	9	30	28
Brokerage fees	11	10	32	30
Card fees	14	11	40	34
Bank-owned life insurance	8	8	27	31
Net income from principal investing and warrants	11		13	7
Net securities gains (losses)	4		4	(1)
Net gain (loss) on sales of businesses		(7)	3	(12)
Other noninterest income	32	30	99	85
Total noninterest income	230	195	658	593
<b>NONINTEREST EXPENSES</b>				
Salaries	207	202	628	592
Employee benefits	49	48	145	142
Total salaries and employee benefits	256	250	773	734
Net occupancy expense	34	31	102	91
Equipment expense	15	13	45	41

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Outside processing fee expense	23	21	67	64
Software expense	16	13	46	41
Customer services	11	11	36	33
Litigation and operational losses	6	3		7
Provision for credit losses on lending-related commitments		(5)	(4)	9
Other noninterest expenses	62	62	176	197
<b>Total noninterest expenses</b>	<b>423</b>	<b>399</b>	<b>1,241</b>	<b>1,217</b>
Income from continuing operations before income taxes	265	283	827	842
Provision for income taxes	85	88	262	245
Income from continuing operations	180	195	565	597
Income (loss) from discontinued operations, net of tax	1	5	2	(3)
<b>NET INCOME</b>	<b>\$ 181</b>	<b>\$ 200</b>	<b>\$ 567</b>	<b>\$ 594</b>
Basic earnings per common share:				
Income from continuing operations	\$1.18	\$1.22	\$ 3.67	\$ 3.70
Net income	1.20	1.25	3.69	3.69
Diluted earnings per common share:				
Income from continuing operations	1.17	1.20	3.61	3.65
Net income	1.18	1.23	3.63	3.64
Cash dividends declared on common stock	97	94	296	286
Dividends per common share	0.64	0.59	1.92	1.77

See notes to consolidated financial statements.



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*Comerica Incorporated and Subsidiaries*

	Accumulated						Total
	Common Stock In	Capital	Other Comprehensive Income	Retained Earnings	Treasury Stock	Shareholders Equity	
<i>(in millions, except per share data)</i>	Shares	Amount	Surplus	Loss	Earnings	Stock	Equity
<b>BALANCE AT JANUARY 1, 2006</b>	162.9	\$ 894	\$ 461	\$ (170)	\$ 4,796	\$ (913)	\$ 5,068
Net income					594		594
Other comprehensive income, net of tax				42			42
Total comprehensive income							636
Cash dividends declared on common stock (\$1.77 per share)					(286)		(286)
Purchase of common stock	(5.2)					(299)	(299)
Net issuance of common stock under employee stock plans	1.4		(16)		(25)	85	44
Recognition of share-based compensation expense			45				45
Employee deferred compensation obligations	(0.3)		17			(17)	
<b>BALANCE AT SEPTEMBER 30, 2006</b>	158.8	\$ 894	\$ 507	\$ (128)	\$ 5,079	\$ (1,144)	\$ 5,208
<b>BALANCE AT DECEMBER 31, 2006</b>	157.6	\$ 894	\$ 520	\$ (324)	\$ 5,282	\$ (1,219)	\$ 5,153
FSP 13-2 transition adjustment, net of tax					(46)		(46)
FIN 48 transition adjustment, net of tax					3		3
<b>BALANCE AT JANUARY 1, 2007</b>	157.6	894	520	(324)	5,239	(1,219)	5,110
Net income					567		567
Other comprehensive income, net of tax				86			86
Total comprehensive income							653
Cash dividends declared on common stock (\$1.92 per share)					(296)		(296)
Purchase of common stock	(9.0)					(533)	(533)
Net issuance of common stock under employee stock plans	2.4		(16)		(26)	139	97
Recognition of share-based compensation expense			46				46
Employee deferred compensation obligations			1			(1)	
<b>BALANCE AT SEPTEMBER 30, 2007</b>	151.0	\$ 894	\$ 551	\$ (238)	\$ 5,484	\$ (1,614)	\$ 5,077

See notes to consolidated financial statements.

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**  
*Comerica Incorporated and Subsidiaries*

<i>(in millions)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 567	\$ 594
Income (loss) from discontinued operations, net of tax	2	(3)
Income from continuing operations	565	597
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	104	15
Provision for credit losses on lending-related commitments	(4)	9
Depreciation and software amortization	69	61
Share-based compensation expense	46	45
Excess tax benefits from share-based compensation arrangements	(9)	(8)
Net amortization of securities	(2)	(1)
Net (gain) loss on sale/settlement of investment securities available-for-sale	(4)	1
Net (gain) loss on sales of businesses	(3)	12
Net decrease in trading securities	1	25
Net decrease in loans held-for-sale	48	57
Net increase in accrued income receivable	(10)	(49)
Net (decrease) increase in accrued expenses	(41)	85
Other, net	(45)	(31)
Discontinued operations, net	1	26
Total adjustments	151	247
Net cash provided by operating activities	716	844
<b>INVESTING ACTIVITIES</b>		
Net decrease (increase) in federal funds sold and other short-term investments	2,488	(2,629)
Proceeds from sales of investment securities available-for-sale	4	1
Proceeds from maturities of investment securities available-for-sale	658	973
Purchases of investment securities available-for-sale	(1,912)	(671)
Net increase in loans	(2,261)	(3,319)
Net increase in fixed assets	(126)	(106)
Net decrease (increase) in customers liability on acceptances outstanding	17	(5)
Proceeds from sales of businesses	3	43
Discontinued operations, net	1	
Net cash used in investing activities	(1,128)	(5,713)
<b>FINANCING ACTIVITIES</b>		
Net (decrease) increase in deposits	(4,140)	2,499
Net increase (decrease) in short-term borrowings	2,178	(77)
Net (decrease) increase in acceptances outstanding	(17)	5

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Proceeds from issuance of medium- and long-term debt	3,835	2,930
Repayments of medium- and long-term debt	(879)	(104)
Proceeds from issuance of common stock under employee stock plans	89	36
Excess tax benefits from share-based compensation arrangements	9	8
Purchase of common stock for treasury	(533)	(299)
Dividends paid	(293)	(282)
Discontinued operations, net		
Net cash provided by financing activities	249	4,716
Net decrease in cash and due from banks	(163)	(153)
Cash and due from banks at beginning of period	1,434	1,609
Cash and due from banks at end of period	\$ 1,271	\$ 1,456
Interest paid	\$ 1,249	\$ 1,025
Income taxes paid	\$ 313	\$ 202
Noncash investing and financing activities:		
Loans transferred to other real estate	\$ 13	\$ 15

See notes to consolidated financial statements.

**Table of Contents****Notes to Consolidated Financial Statements (unaudited)***Comerica Incorporated and Subsidiaries***Note 1 Basis of Presentation and Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Certain items in prior periods have been reclassified to conform to the current presentation. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report of Comerica Incorporated and Subsidiaries (the Corporation) on Form 10-K for the year ended December 31, 2006.

**Income Taxes**

On January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109, (FIN 48). FIN 48 permits the Corporation to elect to change its accounting policy as to where interest and penalties on tax liabilities is classified in the consolidated statements of income. Effective January 1, 2007, the Corporation prospectively changed its accounting policy to classify interest and penalties on tax liabilities in the provision for income taxes on the consolidated statements of income. The provision for income taxes included interest on tax liabilities of \$4 million and \$8 million for the three and nine month periods ended September 30, 2007, respectively. For all prior periods presented, interest and penalties on tax liabilities remained classified in other noninterest expenses on the consolidated statements of income. Additional information regarding FIN 48 can be found in Note 6.

**Impairment**

Goodwill and identified intangible assets that have an indefinite useful life are subject to impairment testing, which the Corporation conducts annually, or on an interim basis if events or changes in circumstances between annual tests indicate the assets might be impaired. The Corporation performs its annual impairment test for goodwill and identified intangible assets that have an indefinite useful life as of July 1 of each year. The impairment test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units, which are a subset of the Corporation's operating segments, and comparing the fair value of each reporting unit to its carrying value. If the fair value is less than the carrying value, a further test is required to measure the amount of impairment. The annual test of goodwill and intangible assets that have an indefinite life, performed as of July 1, 2007, did not indicate that an impairment charge was required.

**Note 2 Pending Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and therefore, does not expand the use of fair value in any new circumstances. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the Corporation transacts. SFAS 157 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the Corporation's own data. SFAS 157 requires fair value measurements to be separately disclosed by level within the fair value hierarchy. While not expanding the use of fair value, SFAS 157 may change the measurement of fair value. Any change in the measurement of fair value would be considered a change in estimate and included in the results of operations in the period of adoption. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Accordingly, the Corporation will adopt the provisions of SFAS 157 in the first quarter of 2008. The Corporation is currently evaluating the guidance contained in SFAS 157 to determine the effect adoption of the

guidance will have on the Corporation's financial condition and results of operations.

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**Notes to Consolidated Financial Statements (unaudited)**

*Comerica Incorporated and Subsidiaries*

**Note 2 Pending Accounting Pronouncements (continued)**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, (SFAS 159). SFAS 159 provides entities with the irrevocable option to account for selected financial assets and liabilities at fair value on a contract-by-contract basis. The Corporation can elect to apply the standard prospectively and measure certain financial instruments at fair value beginning January 1, 2008. The Corporation is currently evaluating the guidance contained in SFAS 159, and has yet to determine which assets or liabilities (if any) will be selected. At adoption, the difference between the carrying amount and the fair value of existing eligible assets and liabilities selected (if any) would be recognized via a cumulative adjustment to beginning retained earnings on January 1, 2008. After adoption, all changes in fair value would be included in the results of operations.

**Note 3 Investment Securities**

A summary of the Corporation's temporarily impaired investment securities available-for-sale as of September 30, 2007 follows: