

PATHFINDER BANCORP INC
Form 10-Q
August 13, 2010

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

FORM 10-Q

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

For the quarterly period ending June 30, 2010

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: 000-23601

PATHFINDER BANCORP, INC.

(Exact Name of Company as Specified in its Charter)

FEDERAL
(State or Other Jurisdiction of Incorporation or
Organization)

16-1540137
(I.R.S. Employer Identification Number)

214 West First Street, Oswego, NY 13126
(Address of Principal Executive Office) (Zip Code)

(315) 343-0057
(Issuer'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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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Large accelerated filer*
filer*

Accelerated filer*
Smaller reporting company

Non-accelerated

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES * NO
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As of August 12, 2010, there were 2,972,119 shares issued and 2,484,832 shares outstanding of the Registrant's Common Stock.

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PART I FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

Pathfinder Bancorp, Inc.
Consolidated Statements of Condition
(Unaudited)

(In thousands, except share data)	June 30, 2010	December 31, 2009
ASSETS:		
Cash and due from banks	\$ 8,936	\$ 8,678
Interest earning deposits	339	5,953
Total cash and cash equivalents	9,275	14,631
Investment securities, at fair value	93,830	72,754
Federal Home Loan Bank stock, at cost	2,113	1,899
Loans	270,283	262,465
Less: Allowance for loan losses	3,455	3,078
Loans receivable, net	266,828	259,387
Premises and equipment, net	7,665	7,173
Accrued interest receivable	1,663	1,482
Foreclosed real estate	59	181
Goodwill	3,840	3,840
Bank owned life insurance	7,096	6,956
Other assets	3,963	3,389
Total assets	\$ 396,332	\$ 371,692
LIABILITIES AND SHAREHOLDERS' EQUITY:		
EQUITY:		
Deposits:		
Interest-bearing	\$ 285,094	\$ 269,539
Noninterest-bearing	30,553	27,300
Total deposits	315,647	296,839
Short-term borrowings	7,236	-
Long-term borrowings	33,000	36,000
Junior subordinated debentures	5,155	5,155
Other liabilities	4,346	4,460
Total liabilities	365,384	342,454
Shareholders' equity:		
Preferred stock, par value \$0.01 per share; \$1,000 liquidation preference; 1,000,000 shares authorized; 6,771 shares issued and outstanding	6,162	6,101
Common stock, par value \$0.01; authorized 10,000,000 shares; 2,972,119 and 2,484,832 shares issued and outstanding, respectively	30	30
Additional paid in capital	8,615	8,615
Retained earnings	23,190	22,419
Accumulated other comprehensive loss	(547)	(1,425)
Treasury stock, at cost; 487,287 shares	(6,502)	(6,502)

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Total shareholders' equity	30,948	29,238
Total liabilities and shareholders' equity	\$ 396,332	\$ 371,692

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

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Pathfinder Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

	For the three months ended June 30, 2010	For the three months ended June 30, 2009
(In thousands, except per share data)		
Interest and dividend income:		
Loans, including fees	\$ 3,752	\$ 3,685
Debt securities:		
Taxable	615	672
Tax-exempt	68	3
Dividends	47	80
Federal funds sold and interest earning deposits	3	1
Total interest income	4,485	4,441
Interest expense:		
Interest on deposits	853	1,154
Interest on short-term borrowings	-	6
Interest on long-term borrowings	355	405
Total interest expense	1,208	1,565
Net interest income	3,277	2,876
Provision for loan losses	262	272
Net interest income after provision for loan losses	3,015	2,604
Noninterest income:		
Service charges on deposit accounts	343	360
Earnings on bank owned life insurance	57	56
Loan servicing fees	60	55
Losses on impairment of investment securities	-	(298)
Net gains on sales and redemptions of investment securities	17	-
Net losses on sales of loans and foreclosed real estate	(34)	(15)
Debit card interchange fees	81	73
Other charges, commissions & fees	142	114
Total noninterest income	666	345
Noninterest expense:		
Salaries and employee benefits	1,496	1,377
Building occupancy	340	306
Data processing expenses	354	336
Professional and other services	186	242
FDIC assessment	129	215
Other expenses	387	340
Total noninterest expenses	2,892	2,816
Income before income taxes	789	133
Provision for income taxes	239	102
Net income	550	31
Preferred stock dividends and discount accretion	115	-
Net income available to common shareholders	\$ 435	\$ 31

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Earnings per common share - basic	\$ 0.17	\$ 0.01
Earnings per common share - diluted	\$ 0.17	\$ 0.01
Dividends per common share	\$ 0.03	\$ 0.06

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

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Pathfinder Bancorp, Inc.
Consolidated Statements of Income
(Unaudited)

	For the six months ended June 30, 2010	For the six months ended June 30, 2009
(In thousands, except per share data)		
Interest and dividend income:		
Loans, including fees	\$ 7,535	\$ 7,312
Debt securities:		
Taxable	1,159	1,383
Tax-exempt	116	13
Dividends	130	161
Federal funds sold and interest earning deposits	5	2
Total interest income	8,945	8,871
Interest expense:		
Interest on deposits	1,696	2,451
Interest on short-term borrowings	-	20
Interest on long-term borrowings	702	811
Total interest expense	2,398	3,282
Net interest income	6,547	5,589
Provision for loan losses	525	407
Net interest income after provision for loan losses	6,022	5,182
Noninterest income:		
Service charges on deposit accounts	732	711
Earnings on bank owned life insurance	140	112
Loan servicing fees	117	111
Losses on impairment of investment securities	-	(298)
Net gains on sales and redemptions of investment securities	28	87
Net (losses) gains on sales of loans and foreclosed real estate	(53)	65
Debit card interchange fees	153	137
Other charges, commissions & fees	259	219
Total noninterest income	1,376	1,144
Noninterest expense:		
Salaries and employee benefits	3,059	2,749
Building occupancy	654	629
Data processing expenses	682	675
Professional and other services	378	414
FDIC assessment	257	262
Other expenses	724	660
Total noninterest expenses	5,754	5,389
Income before income taxes	1,644	937
Provision for income taxes	494	327
Net income	1,150	610
Preferred stock dividends and discount accretion	230	-

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Net income available to common shareholders	\$ 920	\$ 610
Earnings per common share - basic	\$ 0.37	\$ 0.25
Earnings per common share - diluted	\$ 0.37	\$ 0.25
Dividends per common share	\$ 0.06	\$ 0.06

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

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Pathfinder Bancorp, Inc.
 Consolidated Statements of Changes in Shareholders' Equity
 Six Months Ended June 30, 2010 and June 30, 2009
 (Unaudited)

(In thousands, except share data)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Com- prehensive Loss	Treasury Stock	Total
Balance, January 1, 2010	\$6,101	\$30	\$8,615	\$22,419	\$(1,425)	\$(6,502)	\$29,238
Comprehensive income:							
Net income				1,150			1,150
Other comprehensive income (loss), net of tax:							
Unrealized holding gains on securities available for sale (net of \$665 tax expense)					886		886
Unrealized holding loss on financial derivative (net of \$49 tax benefit)					(74)		(74)
Retirement plan net losses and transition obligation recognized in plan expenses (net of \$44 tax expense)					66		66
Total Comprehensive							2,028

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income								
Preferred stock discount accretion	61			(61)				-
Preferred stock dividends				(169)				(169)
Common stock dividends declared (\$0.06 per share)				(149)				(149)
Balance, June 30, 2010	\$6,162	\$30	\$8,615	\$23,190	\$(547)	\$(6,502)		\$30,948
Balance, January 1, 2009	\$-	\$30	\$7,909	\$21,198	\$(3,140)	\$(6,502)		\$19,495
Comprehensive income:								
Net income				610				610
Other comprehensive income, net of tax:								
Unrealized holding gains on securities available for sale (net of \$132 tax expense)					76			76
Retirement plan net losses and transition obligation recognized in plan expenses (net of \$56 tax expense)					83			83
Total Comprehensive income								769
Common stock dividends declared (\$0.06 per share)				(150)				(150)
Balance, June 30, 2009	\$-	\$30	\$7,909	\$21,658	\$(2,981)	\$(6,502)		\$20,114

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

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Pathfinder Bancorp, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	For the six months ended June 30, 2010	For the six months ended June 30, 2009
OPERATING ACTIVITIES		
Net income	\$ 1,150	\$ 610
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	525	407
Proceeds from sales of loans	144	6,513
Originations of loans held-for-sale	(146)	(6,427)
Realized losses (gains) on sales of:		
Real estate acquired through foreclosure	51	21
Loans	2	(86)
Premises and equipment	1	-
Available-for-sale investment securities	(28)	(87)
Impairment write-down on available-for-sale securities	-	298
Depreciation	324	327
Amortization of mortgage servicing rights	16	13
Amortization of deferred loan costs	109	109
Earnings on bank owned life insurance	(140)	(112)
Net amortization (accretion) of premiums and discounts on investment securities	148	(144)
(Increase) decrease in accrued interest receivable	(181)	160
Net change in other assets and liabilities	(1,376)	(1,654)
Net cash provided by (used in) operating activities	599	(52)
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(36,600)	(12,653)
Net (purchases of) proceeds from the redemption of Federal Home Loan Bank stock	(214)	632
Proceeds from maturities and principal reductions of investment securities available-for-sale	15,167	11,150
Proceeds from sale of:		
Available-for-sale investment securities	1,789	6,559
Real estate acquired through foreclosure	128	132
Premises and equipment	24	-
Net increase in loans	(8,134)	(600)
Purchase of premises and equipment	(841)	(184)
Net cash (used in) provided by investing activities	(28,681)	5,036
FINANCING ACTIVITIES		

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Net increase in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits	24,823	9,438
Net (decrease) increase in time deposits	(6,015)	2,030
Net proceeds from (repayments on) short-term borrowings	7,236	(16,575)
Payments on long-term borrowings	(5,000)	(1,000)
Proceeds from long-term borrowings	2,000	2,000
Cash dividends paid to preferred shareholders	(169)	-
Cash dividends paid to common shareholders	(149)	(330)
Net cash provided by (used in) financing activities	22,726	(4,437)
(Decrease) increase in cash and cash equivalents	(5,356)	547
Cash and cash equivalents at beginning of period	14,631	7,678
Cash and cash equivalents at end of period	\$ 9,275	\$ 8,225
CASH PAID DURING THE PERIOD FOR:		
Interest	\$ 2,447	\$ 3,312
Income taxes	402	521
NON-CASH INVESTING ACTIVITY		
Transfer of loans to foreclosed real estate	59	69

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

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Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Pathfinder Bancorp, Inc. and its wholly owned subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes necessary for a complete presentation of consolidated financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income as previously reported.

The following material under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" is written with the presumption that the users of the interim financial statements have read, or have access to, the Company's latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 31, 2009 and 2008 and for the two year periods then ended. Therefore, only material changes in financial condition and results of operations are discussed in the remainder of Part 1.

Operating results for the three and six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

(2) Earnings per Common Share

Basic earnings per common share has been computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding throughout the three months and six months ended June 30, 2010 and 2009, using 2,484,832 weighted average common shares outstanding for each quarter. Diluted earnings per common share for the three months and six months ended June 30, 2010 and 2009, have been computed using 2,488,041 and 2,484,832 weighted average common shares outstanding for the three month periods, respectively, and 2,484,832 for each of the six month periods. Diluted earnings per share gives effect to weighted average shares that would be outstanding assuming the exercise of issued stock options and warrants using the treasury stock method. The dilutive effect for the three months ended June 30, 2010 was the result of the Company's common stock weighted average trading price rising above the strike price of outstanding warrants. However, when calculating the dilutive effect for the six months ended June 30, 2010, the relationship between the trading price and strike prices in the first quarter of 2010 must also be considered. The Company's common stock trading price averaged over the six-month period remained below strike prices of the outstanding stock options and warrants and therefore there was no significant dilutive effect. There was also no dilutive effect during the three months and six months ended June 30, 2009.

(3) Pension and Postretirement Benefits

The Company has a noncontributory defined benefit pension plan covering substantially all employees. The plan provides defined benefits based on years of service and final average salary. In addition, the Company provides certain health and life insurance benefits for eligible retired employees. The healthcare plan is contributory with participants' contributions adjusted annually; the life insurance plan is noncontributory. Employees with less than 14 years of service as of January 1, 1995, are not eligible for the health and life insurance retirement benefits.

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The composition of net periodic pension plan costs for the three months and six months ended June 30, is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2010	2009	2010	2009
Service cost	\$ 65	\$ 57	\$ 130	\$ 114
Interest cost	94	83	188	166
Expected return on plan assets	(143)	(68)	(268)	(136)
Amortization of net losses	50	65	100	130
Net periodic benefit cost	\$ 66	\$ 137	\$ 150	\$ 274

The composition of net periodic postretirement plan costs for the three months and six months ended June 30, is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2010	2009	2010	2009
Service cost	\$ -	\$ 1	\$ -	\$ 2
Interest cost	5	5	10	10
Amortization of transition obligation	4	5	9	10
Net periodic benefit cost	\$ 9	\$ 11	\$ 19	\$ 22

The Company made a non-recurring contribution to the defined benefit pension plan of \$1.0 million during the first quarter of 2010. Regular contributions of approximately \$64,000 were also made in the first quarter as planned. There were no additional contributions made in the second quarter.

(4) Comprehensive Income

Accounting principles generally accepted in the United States of America, require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, unrealized gains and losses on financial derivatives, and unrecognized gains and losses, prior service costs and transition assets or obligations for defined benefit pension and post-retirement plans are reported as a separate component of the shareholders' equity section of the consolidated statements of condition, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects for the three and six months ended June 30 are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands)	2010	2009	2010	2009
Unrealized holding gains on securities available for sale:				
Unrealized holding gains (losses) arising during the period	\$ 952	\$ 217	\$ 1,580	\$ (3)

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Reclassification adjustment for impairment charges included in net income	-	298	-	298
Reclassification adjustment for net gains included in net income	(17)	-	(28)	(87)
Net unrealized gains on securities available for sale	935	515	1,552	208
Unrealized holding losses on financial derivative:				
Unrealized holding losses arising during the period	(177)	-	(123)	-
Net unrealized losses on financial derivative	(177)	-	(123)	-
Defined benefit pension and post retirement plans:				
Reclassification adjustment for amortization of benefit plans' net loss and transition obligation recognized in net periodic expense	54	70	109	140
Net change in defined benefit plan	54	70	109	140
Other comprehensive income before tax	812	585	1,538	348
Tax effect	(370)	(162)	(660)	(189)
Other comprehensive income	\$ 442	\$ 423	\$ 878	\$ 159

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The components of accumulated other comprehensive loss and related tax effects for the periods indicated are as follows:

(In thousands)	June 30, 2010	December 31, 2009
Unrealized gains on securities available for sale		
(net of tax expense 2010 - \$831; 2009 - \$166)	\$ 1,135	\$ 249
Unrealized losses on financial derivative		
(net of tax benefit 2010 - \$49; 2009 - \$0)	(74)	