

PATHFINDER BANCORP INC
Form 10-Q
November 15, 2010
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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 September 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

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer* Accelerated filer* Non-accelerated filer* Smaller reporting
company T

(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
T

As of November 11, 2010, there were 2,972,119 shares issued and 2,484,832 shares outstanding of the Registrant’s
Common Stock.

PATHFINDER BANCORP, INC.
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PART I FINANCIAL INFORMATION

Item 1 – Consolidated Financial Statements

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

| | September 30, 2010 | December 31, 2009 |
|--|--------------------------|-------------------------|
| (In thousands, except share data) | | |
| ASSETS: | | |
| Cash and due from banks | \$ 11,037 | \$ 8,678 |
| Interest earning deposits | 9,440 | 5,953 |
| Total cash and cash equivalents | 20,477 | 14,631 |
| Investment securities, at fair value | 84,164 | 72,754 |
| Federal Home Loan Bank stock, at cost | 1,864 | 1,899 |
| Loans | 278,429 | 262,465 |
| Less: Allowance for loan losses | 3,582 | 3,078 |
| Loans receivable, net | 274,847 | 259,387 |
| Premises and equipment, net | 7,831 | 7,173 |
| Accrued interest receivable | 1,707 | 1,482 |
| Foreclosed real estate | 355 | 181 |
| Goodwill | 3,840 | 3,840 |
| Bank owned life insurance | 7,168 | 6,956 |
| Other assets | 3,533 | 3,389 |
| Total assets | \$ 405,786 | \$ 371,692 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Deposits: | | |
| Interest-bearing | \$ 297,948 | \$ 269,539 |
| Noninterest-bearing | 29,979 | 27,300 |
| Total deposits | 327,927 | 296,839 |
| Long-term borrowings | 35,000 | 36,000 |
| Junior subordinated debentures | 5,155 | 5,155 |
| Other liabilities | 6,169 | 4,460 |
| Total liabilities | 374,251 | 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 | 6,193 | 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 | 23,668 | 22,419 |
| Accumulated other comprehensive loss | (469) | (1,425) |

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| | | |
|--|------------|------------|
| Treasury stock, at cost; 487,287 shares | (6,502) | (6,502) |
| Total shareholders' equity | 31,535 | 29,238 |
| Total liabilities and shareholders' equity | \$ 405,786 | \$ 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 September 30, 2010 | For the three months ended September 30, 2009 |
|--|--|--|
| (In thousands, except per share data) | | |
| Interest and dividend income: | | |
| Loans, including fees | \$ 3,861 | \$ 3,686 |
| Debt securities: | | |
| Taxable | 611 | 619 |
| Tax-exempt | 74 | 3 |
| Dividends | 38 | 81 |
| Federal funds sold and interest earning deposits | 1 | 2 |
| Total interest income | 4,585 | 4,391 |
| Interest expense: | | |
| Interest on deposits | 861 | 1,020 |
| Interest on short-term borrowings | 2 | 7 |
| Interest on long-term borrowings | 350 | 365 |
| Total interest expense | 1,213 | 1,392 |
| Net interest income | 3,372 | 2,999 |
| Provision for loan losses | 263 | 247 |
| Net interest income after provision for loan losses | 3,109 | 2,752 |
| Noninterest income: | | |
| Service charges on deposit accounts | 319 | 382 |
| Earnings on bank owned life insurance | 72 | 56 |
| Loan servicing fees | 46 | 64 |
| Net gains on sales and redemptions of investment securities | 144 | 231 |
| Net gains on sales of loans and foreclosed real estate | 10 | 15 |
| Debit card interchange fees | 76 | 69 |
| Other charges, commissions & fees | 131 | 155 |
| Total noninterest income | 798 | 972 |
| Noninterest expense: | | |
| Salaries and employee benefits | 1,541 | 1,402 |
| Building occupancy | 317 | 312 |
| Data processing | 340 | 322 |
| Professional and other services | 243 | 239 |
| FDIC assessments | 129 | 218 |
| Other expenses | 382 | 371 |
| Total noninterest expenses | 2,952 | 2,864 |
| Income before income taxes | 955 | 860 |
| Provision for income taxes | 287 | 293 |
| Net income | 668 | 567 |

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| | | |
|--|---------|---------|
| Preferred stock dividends and discount accretion | 115 | 25 |
| Net income available to common shareholders | \$ 553 | \$ 542 |
| Earnings per common share - basic | \$ 0.22 | \$ 0.22 |
| Earnings per common share - diluted | \$ 0.22 | \$ 0.22 |
| Dividends per common share | \$ 0.03 | \$ 0.03 |

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 nine months ended September 30, 2010 | For the nine months ended September 30, 2009 |
|---|--|--|
| (In thousands, except per share data) | | |
| Interest and dividend income: | | |
| Loans, including fees | \$ 11,396 | \$ 10,999 |
| Debt securities: | | |
| Taxable | 1,771 | 2,001 |
| Tax-exempt | 190 | 16 |
| Dividends | 168 | 243 |
| Federal funds sold and interest earning deposits | | |
| | 5 | 3 |
| Total interest income | 13,530 | 13,262 |
| Interest expense: | | |
| Interest on deposits | 2,557 | 3,471 |
| Interest on short-term borrowings | 2 | 26 |
| Interest on long-term borrowings | 1,052 | 1,176 |
| Total interest expense | 3,611 | 4,673 |
| Net interest income | 9,919 | 8,589 |
| Provision for loan losses | 788 | 654 |
| Net interest income after provision for loan losses | 9,131 | 7,935 |
| Noninterest income: | | |
| Service charges on deposit accounts | 1,051 | 1,099 |
| Earnings on bank owned life insurance | 212 | 169 |
| Loan servicing fees | 163 | 175 |
| Losses on impairment of investment securities | - | (298) |
| Net gains on sales and redemptions of investment securities | 172 | 319 |
| Net (losses) gains on sales of loans and foreclosed real estate | (43) | 80 |
| Debit card interchange fees | 229 | 206 |
| Other charges, commissions & fees | 390 | 366 |
| Total noninterest income | 2,174 | 2,116 |
| Noninterest expense: | | |
| Salaries and employee benefits | 4,601 | 4,151 |
| Building occupancy | 971 | 941 |
| Data processing | 1,021 | 997 |
| Professional and other services | 621 | 654 |
| FDIC assessments | 386 | 480 |
| Other expenses | 1,106 | 1,031 |
| Total noninterest expenses | 8,706 | 8,254 |
| Income before income taxes | 2,599 | 1,797 |
| Provision for income taxes | 780 | 620 |
| Net income | 1,819 | 1,177 |

| | | |
|--|----------|----------|
| Preferred stock dividends and discount accretion | 346 | 25 |
| Net income available to common shareholders | \$ 1,473 | \$ 1,152 |
| Earnings per common share - basic | \$ 0.59 | \$ 0.46 |
| Earnings per common share - diluted | \$ 0.59 | \$ 0.46 |
| Dividends per common share | \$ 0.09 | \$ 0.09 |

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
 Nine Months Ended September 30, 2010 and September 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 | | | | 1,819 | | | 1,819 |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Unrealized holding gains on securities available for sale (net of \$646 tax expense) | | | | | 967 | | 967 |
| Unrealized holding loss on financial derivative (net of \$74 tax benefit) | | | | | (110) | | (110) |
| Retirement plan net losses and transition obligation recognized in plan expenses (net of \$66 tax expense) | | | | | 99 | | 99 |
| Total Comprehensive income | | | | | | | 2,775 |
| Preferred stock discount accretion | 92 | | | (92) | | | - |
| | | | | (254) | | | (254) |

| | | | | | | | | |
|--|----------|-------|----------|-----------|-------------|------------|--|-----------|
| Preferred stock dividends | | | | | | | | |
| Common stock dividends declared (\$0.09 per share) | | | | (224) | | | | (224) |
| Balance, September 30, 2010 | \$ 6,193 | \$ 30 | \$ 8,615 | \$ 23,668 | \$ (469) | \$ (6,502) | | \$ 31,535 |
| Balance, January 1, 2009 | - | \$ 30 | \$ 7,909 | \$ 21,198 | \$ (3,140) | \$ (6,502) | | \$ 19,495 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | 1,177 | | | | 1,177 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Unrealized holding gains on securities available for sale (net of \$588 tax expense) | | | | | 1,106 | | | 1,106 |
| Retirement plan net losses and transition obligation recognized in plan expenses (net of \$84 tax benefit) | | | | | 125 | | | 125 |
| Total Comprehensive income | | | | | | | | 2,408 |
| Preferred stock and common stock warrants issued | 6,065 | | 706 | | | | | 6,771 |
| Preferred stock discount accretion | 6 | | | (6) | | | | - |
| Preferred stock dividends | | | | (19) | | | | (19) |
| Common stock dividends declared (\$0.09 per share) | | | | (224) | | | | (224) |
| Balance, September 30, 2009 | \$ 6,071 | \$ 30 | \$ 8,615 | \$ 22,126 | \$ (1,909) | \$ (6,502) | | \$ 28,431 |

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)

| | For the nine months ended September 30, 2010 | For the nine months ended September 30, 2009 |
|---|---|---|
| (In thousands) | | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,819 | \$ 1,177 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 788 | 654 |
| Proceeds from sales of loans | 144 | 9,322 |
| Originations of loans held-for-sale | (146) | (9,210) |
| Realized losses (gains) on sales of: | | |
| Real estate acquired through foreclosure | 41 | 32 |
| Loans | 2 | (112) |
| Premises and equipment | 1 | - |
| Available-for-sale investment securities | (172) | (319) |
| Impairment write-down on available-for-sale securities | - | 298 |
| Depreciation | 483 | 493 |
| Amortization of mortgage servicing rights | 22 | 22 |
| Amortization of deferred loan costs | 163 | 183 |
| Earnings on bank owned life insurance | (212) | (169) |
| Net amortization (accretion) of premiums and discounts on investment securities | 336 | (84) |
| (Increase) decrease in accrued interest receivable | (225) | 213 |
| Net change in other assets and liabilities | 889 | (1,291) |
| Net cash provided by operating activities | 3,933 | 1,209 |
| INVESTING ACTIVITIES | | |
| Purchase of investment securities available-for-sale | (46,190) | (21,379) |
| Net proceeds from the redemption of Federal Home Loan Bank stock | 35 | 740 |
| Proceeds from maturities and principal reductions of investment securities available-for-sale | 27,133 | 15,999 |
| Proceeds from sale of: | | |
| Available-for-sale investment securities | 9,096 | 13,758 |
| Real estate acquired through foreclosure | 137 | 265 |
| Premises and equipment | 24 | - |
| Net increase in loans | (16,766) | (5,283) |
| Purchase of premises and equipment | (1,166) | (280) |
| Net cash (used in) provided by investing activities | (27,697) | 3,820 |
| FINANCING ACTIVITIES | | |

| | | |
|---|-----------|-----------|
| Net increase in demand deposits, NOW accounts, savings accounts, money management deposit accounts, MMDA accounts and escrow deposits | 38,658 | 20,933 |
| Net (decrease) increase in time deposits | (7,570) | 2,247 |
| Net repayments on short-term borrowings | - | (16,575) |
| Payments on long-term borrowings | (5,000) | (3,400) |
| Proceeds from long-term borrowings | 4,000 | 2,000 |
| Proceeds from the issuance of preferred stock and common stock warrants | - | 6,771 |
| Cash dividends paid to preferred shareholders | (254) | - |
| Cash dividends paid to common shareholders | (224) | (404) |
| Net cash provided by financing activities | 29,610 | 11,572 |
| Increase in cash and cash equivalents | 5,846 | 16,601 |
| Cash and cash equivalents at beginning of period | 14,631 | 7,678 |
| Cash and cash equivalents at end of period | \$ 20,477 | \$ 24,279 |
| CASH PAID DURING THE PERIOD FOR: | | |
| Interest | \$ 3,645 | \$ 4,721 |
| Income taxes | 402 | 521 |
| NON-CASH INVESTING ACTIVITY | | |
| Transfer of loans to foreclosed real estate | 355 | 381 |

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 years 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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2010 and 2009, have been computed using 2,484,832 and 2,486,652 weighted average common shares outstanding for the three month periods, respectively, and 2,484,832 and 2,485,445 for each of the nine month periods, respectively. 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 Company's common stock trading price averaged over the three-month period and the nine-month period ended September 30, 2010 remained below strike prices of the outstanding stock options and warrants and therefore there was no dilutive effect. The dilutive effect for the three months and nine months ended September 30, 2009 was the result of the Company's common stock weighted average trading price rising above the strike price of outstanding warrants after their issuance.

(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 nine months ended September 30, is as follows:

| (In thousands) | For the three months ended September 30, | | For the nine months ended September 30, | |
|--------------------------------|---|-------|--|--------|
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ 65 | \$ 57 | \$ 195 | \$ 171 |
| Interest cost | 94 | 83 | 282 | 250 |
| Expected return on plan assets | (143) | (68) | (411) | (204) |
| Amortization of net losses | | | | |