PATHFINDER BANCORP INC
Form 8-K
May 04, 2007

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

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 03, 2007

Pathfinder Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Federal	000-23601	16-1540137
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

Registrant's telephone number, including area code: (315) 343-0057

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 - Financial Information

Item 2.02

On May 3, 2007, Pathfinder Bancorp, Inc. issued a press release disclosing first quarter 2007 financial results. A copy of the press release is included as

Exhibit 99.1 to this report.

The information in Item 2.02 to this Form 8-K and Exhibit 99.1 in accordance with general instruction B.2 of Form 8-K, is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except shall be expressly set forth by specific in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

PATHFINDER BANCORP, INC.

Date: May 3, 2007 By: /s/ Thomas W. Schneider

Thomas W. Schneider
President and Chief Executive Officer

EXHIBIT INDEX

Earnings release dated May 3, 2007 announcing March 31, 2007 earnings.

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

CONTACT: THOMAS W. SCHNEIDER - PRESIDENT, CEO
JAMES A. DOWD - SENIOR VICE PRESIDENT, CFO
TELEPHONE: (315) 343-0057

PATHFINDER BANCORP, INC. ANNOUNCES FIRST QUARTER EARNINGS

Oswego, New York, May 3, 2007 Pathfinder Bancorp, Inc., the mid-tier holding company of Pathfinder Bank, (NASDAQ SmallCap Market; symbol: PBHC, listing: PathBcp) announced reported net income of $165,000, or $0.07 per diluted share, for the three months ended March 31, 2007 as compared to $240,000, or $0.10 per diluted share for the same period in 2006.

"We are disappointed in the continued pressure on earnings, particularly given our core business growth metrics." according to Thomas W. Schneider, President and CEO. "While product and customer growth has well exceeded the growth rates of our market, net interest income volume gains are being fully offset by continued margin compression from the inverted yield curve. Year over year growth in loans and earning assets approximates 7.0% while deposit growth was 9.6%. Net interest rate spread compression of 20 basis points in the same period has prevented this growth from being reflected in earnings".

"Additionally," Schneider continued, "the first quarter reflects direct external costs of approximately $60,000 associated with the documentation phase of Sarbanes-Oxley Section 404 compliance. We will continue to focus on our deposit and lending business to enhance net interest income while seeking to diversify revenue sources and manage costs through this prolonged interest rate cycle."

Net interest income for the three months ended March 31, 2007, increased $4,000 when compared to the same period during 2006. Interest income increased $404,000, or 10%, offset by increased interest expense of $400,000, or 23%. Net interest rate spread decreased to 2.80% for the first quarter of 2007 from 3.00% for the same period in 2006. Average interest-earning assets increased 3% to $284.6 million at March 31, 2007 as compared to $275.9 million at March 31, 2006, and the yield on those assets increased 37 basis points to 6.04% compared to 5.67% for the same period in 2006. The increase in average earning assets is primarily attributable to a $13.7 million increase in the average loan portfolio and a $6.3 million increase in interest earning deposits, offset by a decrease in average investment securities of $11.3 million. Average interest-bearing

liabilities increased $2.7 million and the cost of funds increased 58 basis points to 3.24% from 2.66% for the same period in 2006. The increase in the average balance of interest-bearing liabilities resulted primarily from an $11.6 million increase in average deposits, offset by a $9.0 million decrease in borrowed funds.

Provision for loan losses for the quarter ended March 31, 2007 increased to $50,000 from $22,000 for the same period in 2006. The increased provision is reflective of the increased risk inherent with the growing commercial loan portfolio. The Company's ratio of allowance for loan losses to period end loans decreased to 0.72% at March 31, 2007 as compared to 0.74% at December 31, 2006. Nonperforming loans to period end loans have increased slightly to 0.66% at March 31, 2007 from 0.63% at December 31, 2006.

Non-interest income, exclusive of gains and losses from the sale of securities, loans and foreclosed real estate, decreased to $601,000 for the quarter ended March 31, 2007 compared to $614,000 for the same quarter in the prior year. The decrease in non-interest income is primarily attributable to a $38,000 decrease in service charges on deposit accounts, offset by a $13,000 increase in other charges, commissions and fees, a $7,000 increase in the value of bank owned life insurance and a $5,000 increase in loan servicing fees. The decrease in service charges on deposit accounts is attributable to decreased utilization of our extended overdraft program by the customer base. The increase in other charges, commissions and fees is primarily attributable to an increase in revenue from in-house investment services and increased fees associated with the bank's Visa debit card usage.

Net losses from the sale of securities, loans and foreclosed real estate for the quarter ended March 31, 2007 decreased $11,000 when compared to the same quarter of 2006.

Other expenses remained relatively consistent at $2.4 million for the quarter ended March 31, 2007, when compared to the same period in the prior year. Professional and other services expense increased $122,000 primarily from consulting expenses associated with the on-going SOX 404 process review, additional legal costs associated with expanded compensation disclosures within the annual proxy statement and a direct mailing campaign aimed at attracting new deposit customers. Data processing expenses increased $18,000 primarily due to an increase in internet banking costs, ATM processing charges, depreciation expense and maintenance charges. These increases were offset by a $48,000 and $47,000 decrease in salaries and employee benefits and other expenses, respectively. The decrease in salaries and employee benefits was primarily due to a reduction in compensation and employee benefits, as management has realigned responsibilities in its effort to contain expenses. The decrease in other expenses was the result of a reduction in costs associated with foreclosed real estate properties as the number of properties decreased to 4 from 13 in the comparable quarter of 2006, combined with a reduction in audit and exam expenses.

On March 22, 2007, the Company entered into a trust preferred issuance for $5.0 million, adjustable quarterly at a 1.65% spread over the 3-month LIBOR. The Company intends to use all the proceeds from the issuance to retire its existing trust preferred obligation on June 27th, 2007, at its first call date.

Pathfinder Bancorp, Inc. is the mid-tier holding company of Pathfinder Bank, a New York chartered savings bank headquartered in Oswego, New York. The Bank has seven full service offices located in its market area consisting of Oswego County. Financial highlights for Pathfinder Bancorp, Inc. are attached. Presently, the only business conducted by Pathfinder Bancorp, Inc. is the 100% ownership of Pathfinder Bank and Pathfinder Statutory Trust I.

This release may contain certain forward-looking statements, which are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact the Company's earnings in future periods. Factors that could cause future results to vary materially from current management expectations include, but are not limited to, general economic conditions, changes in interest rates, deposit flows, loan demand, real estate values, and competition; changes in accounting principles, policies, or guidelines; changes in legislation or regulation; and economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products, and services.

PATHFINDER BANCORP, INC.
FINANCIAL HIGHLIGHTS (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2007	2006
CONDENSED INCOME STATEMENT		
Interest income	$ 4,269	$ 3,865
Interest expense	2,148	1,748
Net interest income	2,121	2,117
Provision for loan losses	50	22
Net interest income after provision for loan losses	2,071	2,095
Other income	601	614
Net losses on securities, loans and foreclosed real estate	(10)	(21)
Other expense	2,458	2,411
Income before taxes	204	277
Provision for income taxes	39	37

NET INCOME	$ 165	$ 240
KEY EARNINGS RATIOS		
Return on average assets	0.21%	0.31%
Return on average equity	3.13%	4.54%
Return on average tangible equity (a)	3.86%	5.67%
Net interest margin (tax equivalent)	3.02%	3.13%

(a) tangible equity excludes intangible assets

SHARE AND PER SHARE DATA		
Basic weighted average shares outstanding	2,481,572	2,463,132
Basic earnings per share	$ 0.07	$ 0.10
Diluted earnings per share	0.07	0.10
Cash dividends per share	0.1025	0.1025
Book value per share	8.43	8.47

	MARCH 31, 2007	DECEMBER 31, 2006	MARCH 31, 2006	MARCH 31, 2005
SELECTED BALANCE SHEET DATA				
Assets	$317,219	$301,382	$303,754	$308,613
Earning assets	290,321	274,083	273,372	278,890
Total loans	204,691	203,209	191,381	186,858
Deposits	260,461	245,585	237,676	244,980
Borrowed Funds	22,010	26,360	37,460	34,360
Trust Preferred Debt	10,310	5,155	5,155	5,155
Shareholders' equity	20,932	20,850	20,859	20,954
ASSET QUALITY RATIOS				
Net loan charge-offs (annualized) to average loans	0.13%	0.12%	0.03%	0.04%
Allowance for loan losses to period end loans	0.72%	0.74%	0.88%	1.01%
Allowance for loan losses to nonperforming loans	109.70%	116.97%	118.64%	106.58%
Nonperforming loans to period end loans	0.66%	0.63%	0.75%	0.94%
Nonperforming assets to total assets	0.54%	0.58%	0.76%	0.85%