PATHFINDER BANCORP INC
Form 10-Q
August 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED JUNE 30, 2002

SEC Exchange Act No. 000-23601

Pathfinder Bancorp, Inc.
(Exact name of Company as specified in its charter)

Federal
(State or jurisdiction of incorporation or organization)

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

214 W. 1st Street
Oswego, New York 13126
(Address of principal executive office) (Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 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 X No ______

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: There were 2,605,563 shares of the Company's common stock outstanding as of August 09, 2002.

PATHFINDER BANCORP, INC.
INDEX

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION
June 30, 2002 (unaudited) and December 31, 2001

ASSETS	June 30, 2002	December 31, 2001
Cash and due from banks	$ 6,916,217	$ 5,284,917
Interest earning deposits	10,260,241	2,160,927
Total cash and cash equivalents	17,176,458	7,445,844
Investment securities	50,701,134	53,422,149
Mortgage loans held-for-sale	3,031,081	5,270,999
Loans:		
Real estate residential	123,443,653	116,101,197
Real estate commercial	32,029,605	30,454,798
Consumer	2,890,272	3,353,133
Commercial	14,755,683	14,357,635
Total loans	173,119,213	164,266,763

Less: Allowance for loan losses	2,166,615	1,679,215
Loans receivable, net	170,952,598	162,587,548
Premises and equipment, net	5,174,112	4,929,433
Accrued interest receivable	1,215,752	1,465,347
Other real estate	439,090	632,465
Intangible assets, net	2,183,976	2,341,854
Other assets	7,091,941	6,270,671
Total assets	$257,966,142	$ 244,366,310
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Interest bearing	$163,906,124	$ 156,553,658
Non-interest bearing	13,440,320	13,035,489
Total deposits	177,346,444	169,589,147
Borrowed funds	49,440,500	49,440,500
Company obligated mandatorily redeemable preferred securities of subsidiary, Pathfinder Statutory Trust I, holding solely junior subordinated debentures of the Company	5,000,000	-
Other liabilities	3,199,344	3,151,914
Total liabilities	234,986,288	222,181,561
Shareholders' equity:		
Preferred stock, authorized shares 1,000,000; no shares issued or outstanding	-	-
Common stock, par value $.01 per share; authorized 10,000,000 shares; issued 2,902,436 shares; and 2,605,563 and 2,600,995 shares outstanding for 2001 and 2002, respectively.	29,024	28,942
Additional paid in capital	7,007,109	6,917,817
Retained earnings	19,690,594	19,015,639
Accumulated other comprehensive income	134,427	80,652
Unearned ESOP shares	(147,306)	(173,142)
Treasury stock, at cost; 296,873 and 293,225 shares, respectively	(3,733,994)	(3,685,159)
Total shareholders' equity	22,979,854	22,184,749
Total liabilities and shareholders' equity	$257,966,142	$ 244,366,310

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 2001
(UNAUDITED)

	June 30, 2002	June 30, 2001

INTEREST INCOME:		
Loans	$ 3,244,249	$ 3,092,902
Interest and dividends on investments:		
U.S. Treasury and agencies	26,465	116,746
State and political subdivisions	78,260	85,985
Corporate obligations	310,436	382,704
Marketable equity securities	37,740	40,217
Mortgage-backed securities	204,900	333,714
Federal funds sold and interest-bearing deposits	11,288	22,896
Total interest income	3,913,338	4,075,164
INTEREST EXPENSE:		
Interest on deposits	1,170,377	1,597,480
Interest on borrowed funds	558,570	583,702
Total interest expense	1,728,947	2,181,182
Net interest income	2,184,391	1,893,982
Provision for loan losses	907,348	419,028
Net interest income after provision for loan losses	1,277,043	1,474,954
OTHER INCOME:		
Service charges on deposit accounts	155,004	139,127
Loan servicing fees	78,419	36,093
Increase in value of bank owned life insurance	45,582	41,851
Net gain on securities, loans and other real estate	712,197	422,029
Other charges, commissions & fees	120,260	108,763
Total other income	1,111,462	747,863
OTHER EXPENSES:		
Salaries and employee benefits	950,666	727,648
Building occupancy	189,495	196,522
Data processing expenses	183,382	186,606
Professional and other services	224,643	186,006
Amortization of intangible asset	78,939	78,939
Other expenses	341,515	350,805
Total other expenses	1,968,640	1,726,526
Income before income taxes	419,865	496,291
Provision for income taxes	108,047	140,286
NET INCOME	$ 311,818	$ 356,005
NET INCOME PER SHARE - BASIC	$ 0.12	$ 0.14
NET INCOME PER SHARE - DILUTED	$ 0.12	$ 0.14

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the six months ended June 30, 2002 and June 30, 2001

(unaudited)

	June 30, 2002	June 30, 2001
INTEREST INCOME:		
Loans	$6,501,611	$6,226,222
Interest and dividends on investments:		
U.S. Treasury and agencies	64,514	238,340
State and political subdivisions	157,463	172,576
Corporate obligations	627,749	791,813
Marketable equity securities	61,571	83,116
Mortgage-backed	474,373	696,286
Federal funds sold and interest-bearing deposits	15,140	24,271
Total interest income	7,902,421	8,232,624
INTEREST EXPENSE:		
Interest on deposits	2,390,706	3,215,268
Interest on borrowed funds	1,128,463	1,274,671
Total interest expense	3,519,169	4,489,939
Net interest income	4,383,252	3,742,685
Provision for loan losses	1,069,581	540,211
Net interest income after provision for loan losses	3,313,671	3,202,474
OTHER INCOME:		
Service charges on deposit accounts	296,708	255,866
Loan servicing fees	123,741	72,217
Increase in value of Company owned life insurance	120,164	81,173
Net gain on securities, loans and other real estate	745,594	491,335
Other charges, commission and fees	225,130	210,781
Total other income	1,511,337	1,111,372
OTHER EXPENSES:		
Salaries and employee benefits	1,734,542	1,487,210
Building occupancy	369,234	427,111
Data processing expenses	401,394	374,156
Professional and other services	405,677	355,524
Amortization of intangible asset	157,878	157,878
Other expenses	664,267	635,317
Total other expenses	3,732,992	3,437,196
Income before income taxes	1,092,016	876,650

Provision for income taxes.	277,801	254,020
NET INCOME.	$ 814,215	$ 622,630
NET INCOME PER SHARE - BASIC.	$ 0.32	$ 0.24
NET INCOME PER SHARE - DILUTED.	$ 0.31	$ 0.24

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

PATHFINDER BANCORP, INC.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2002
(unaudited)

	Additional Common Stock Issued Shares	Paid in Amount	Retained Capital	Earnings
BALANCE, DECEMBER 31, 2001.	2,894,220	$ 28,942	$6,917,817	$19,015,639
Comprehensive income:				
Net income.	814,215			
ESOP shares earned.	32,741			
Stock option exercised.	8,216	82	56,551	
Treasury stock purchased				
Dividends declared ($.14 per share)	(139,260)			
BALANCE, JUNE 30, 2002.	2,902,436	$ 29,024	$7,007,109	$19,690,594

	Accumulated Other Com- Comprehensive Income(Loss)	Unearned prehensive Income	ESOP Shares	Treasur Stock
BALANCE, DECEMBER 31, 2001.	$ -	$ 80,652	$(173,142)	$(3,685,1
Comprehensive income:				
Net income.	814,215	814,215		
Other comprehensive income, net of tax				
Unrealized gains on securities:				

Unrealized holding gains arising during period.	706,646			
Reclassification adjustment for gains included in net income	(617,320)			
Other comprehensive income, before tax. .	89,326			
Income tax provision.	(35,551)			
Other comprehensive income, net of tax. .	53,775	53,775	53,775	
Comprehensive income:	867,990			
ESOP shares earned.	25,836	58,577		
Stock option exercised.	56,633			
Treasury stock purchased.	(48,835)	(48,835)		
Dividends declared ($.14 per share)	(139,260)			
BALANCE, JUNE 30, 2002.	$ -	$ 134,427	$(147,306)	$(3,733,9

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

PATHFINDER BANCORP, INC.
STATEMENTS OF CASH FLOWS
June 30, 2002 and June 30, 2001
(unaudited)

	June 30, 2002	June 30, 2001
OPERATING ACTIVITIES:		
Net income.	$ 814,215	$ 622,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,069,581	540,211
ESOP and other stock-based compensation earned.	58,577	33,946
Deferred income tax provision	-	129,522
Proceeds from sale of loans	13,202,434	8,038,416
Originations of loans held-for-sale	(10,945,433)	(9,010,664)
Realized loss/(gain) on:		
Sale of real estate acquired through foreclosure.	1,788	30,733
Sale of loans	(17,083)	(25,351)
Available-for-sale investment securities.	(617,320)	(444,974)
Depreciation.	235,698	237,604
Amortization of intangibles	157,878	157,878
Increase in surrender value of bank owned life insurance. . . .	(120,164)	(81,173)
Net accretion of premiums and discounts		

on investment securities	(11,470)	(8,524)
Decrease in interest receivable	249,595	103,215
Net change in other assets and liabilities	(689,696)	(888,411)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,388,600	(564,942)
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(3,299,497)	(1,043,834)
Proceeds from maturities and principle reductions of investment securities available-for-sale	4,936,777	2,936,605
Proceeds from sale of:		
Real estate acquired through foreclosure	295,946	103,551
Available-for-sale investment securities	1,801,851	2,696,347
Net increase in loans	(9,538,990)	(1,734,476)
Purchase of premises and equipment	(480,377)	(156,270)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(6,284,290)	2,801,923
FINANCING ACTIVITIES		
Net increase in demand, NOW, savings, money market and escrow deposit accounts	7,536,973	5,147,475
Net increase in time deposits	220,324	2,668,968
Net repayments from borrowings	-	(5,154,000)
Proceeds from trust preferred obligation	5,000,000	-
Proceeds from exercise of stock options	56,633	-
Cash dividends	(138,791)	(313,125)
Treasury stock purchased	(48,835)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,626,304	2,349,318
INCREASE IN CASH AND CASH EQUIVALENTS	9,730,614	4,586,299
Cash and cash equivalents at beginning of period	7,445,844	4,155,343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 17,176,458	$ 8,741,642

CASH PAID DURING THE PERIOD FOR:		
Interest	$ 3,520,084	$ 4,580,201
Income taxes paid	625,000	359,618
NON-CASH INVESTING ACTIVITY:		
Transfer of loans to other real estate	$ 104,359	$ 293,121
(Increase)/decrease in unrealized gains and losses on available for sale investment securities	(89,326)	34,511
NON-CASH FINANCING ACTIVITY:		
Dividends declared and unpaid	$ 71,713	$ 156,090

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

PATHFINDER BANCORP, INC.

Notes to Financial Statements

(1) BASIS OF PRESENTATION

The accompanying unaudited financial statements were prepared in accordance with the instructions for Form 10-Q and Regulation S-X and, therefore, do not include information for footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. 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, 2001 and for the three year period then ended. Therefore, only material changes in financial condition and results of operations are discussed in the remainder of part 1.

All adjustments (consisting of only normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the financial statements have been included in the results of operations for the three months and six months ended June 30, 2002 and 2001. Operating results for the three months and six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

(2) EARNINGS PER SHARE

Basic earnings per share have been computed based upon net income for the three months and six months ended June 30, using 2,576,769 and 2,574,159 weighted average common shares outstanding for 2002 and 2,565,347 and 2,564,165 for 2001. Diluted earnings per share for the three months and six months ended June 30, 2002 and 2001, has been computed using 2,626,890, 2,624,452, 2588,239 and 2,574,863 shares, respectively. Dilutive earnings per share gives effect to weighted average shares which would be outstanding assuming the exercise of issued stock options using the treasury stock method.

(3) RECLASSIFICATIONS

Certain prior period information has been reclassified to conform to the current period's presentation. These reclassifications had no affect on net income as previously reported.

(4) DIVIDEND RESTRICTIONS

For the second quarter ending June 30, 2002, the Company's parent, Pathfinder Bancorp, MHC, waived its right to receive its portion, or $111,0000, of the cash dividends declared on June 18, 2002. The Company maintains a restricted capital account with a $443,000 balance, representing Pathfinder Bancorp, MHC's portion of dividends waived as of June 30, 2002.

(5) TRUST PREFERRED POOL TRANSACTION

On June 26, 2002, the Company formed a wholly owned subsidiary, Pathfinder Statutory Trust I, a Connecticut business trust. The trust issued $5,000,000 of 30 year floating rate Company-obligated pooled capital securities of Pathfinder Statutory Trust I. The Company borrowed the proceeds of the capital securities from its subsidiary by issuing floating rate junior subordinated deferrable interest debentures having substantially similar terms. The capital securities mature in 2032 and are treated as Tier 1 capital by the Federal Deposit Insurance Company and the Office of Thrift Supervision. The capital securities of the trust are a pooled trust preferred fund of Preferred Term Securities VI, Ltd, and are tied to the 3 month LIBOR plus 3.45%, with a five year call provision. All of these securities are guaranteed by the Company.

(6) BRANCH ACQUISITION

On May 14, 2002, the Company's subsidiary, Pathfinder Bank, signed an agreement with Cayuga Bank to purchase their Lacona branch location in Northern Oswego County. The transaction includes approximately $27.3 million in deposits, $2.4 million in loans and the facility and equipment. The transaction is subject to regulatory approval with an anticipated closing at the end of the third quarter.

(7) NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under this pronouncement, goodwill will no longer be amortized, but is subject to annual impairment tests in accordance with the statements. Goodwill arising from branch acquisitions continues to be amortized. As the Company's intangible assets represent goodwill arising from branch acquisitions, there is no impact on the financial statements under the current provisions of this pronouncement.

8

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

This Quarterly Report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market areas and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically declines any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

GENERAL

Throughout the Management's Discussion and Analysis the term, "the Company", refers to the consolidated entity of Pathfinder Bancorp, Inc., Pathfinder Bank, Pathfinder REIT Inc., Whispering Oaks Development Corp and Pathfinder Statutory Trust I. At June 30, 2002, Pathfinder Bancorp, Inc.'s only business was the 100% ownership of Pathfinder Bank and Pathfinder Statutory Trust I. Pathfinder Bank owns Pathfinder REIT, Inc. and Whispering Oaks Development Corp. At June 30, 2002, 1,583,239 shares, or 60.8%, of the Company's common stock was held by Pathfinder Bancorp, MHC, the Company's mutual holding company parent and 1,022,324 shares, or 39.2%, was held by the public.

The Company's net income is primarily dependent on its net interest income, which is the difference between interest income earned on its investments in mortgage loans, investment securities and other loans, and its cost of funds consisting of interest paid on deposits and borrowed funds. The Company's net income also is affected by its provision for loan losses, as well as by the amount of non interest income, including income from fees and service charges, net gains and losses on sales of securities, and non interest expense such as employee compensation and benefits, occupancy and equipment costs, data processing and income taxes. Earnings of the Company also are affected significantly by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities, which events are beyond the control of the Company. In particular, the general level of market rates tends to be highly cyclical.

The following discussion reviews the financial condition at June 30, 2002 and the results of operations of the Company for the three months and six months ended June 30, 2002 and June 30, 2001.

9

Financial Condition

Assets

Total assets increased approximately $13.6 million, or 5.6%, to $258.0 million at June 30, 2002 from $244.4 million at December 31, 2001. The increase in total assets is primarily attributable to a $9.7 million increase in cash and cash equivalents and an $8.4 million increase in net loans receivable, partially offset by decreases of $2.7 million in investment securities and $2.2 million in mortgage loans held-for-sale. The increase in cash and cash equivalents was primarily due to the $5.0 million in cash proceeds received from the Company's participation in a pooled trust preferred issuance and the sale of $3.2 million in 30 year fixed rate mortgages. The increase in net loans receivable is primarily due to a $7.3 million increase in residential real estate loans, a $2.0 million increase in commercial real estate and commercial loans, partially offset by a $463,000 decrease in consumer loans. The increase in loans was principally funded by an increase of $7.8 million in deposits and proceeds from amortization, maturities, and sales of investment securities.

Liabilities

Total liabilities increased by $12.8 million, or 5.8%, to $235.0 million at June 30, 2002 from $222.2 million at December 31, 2001. The increase is primarily attributable to a $7.8 million, or 4.6%, increase in deposits, and the issuance of $5.0 million of subordinated debt securities, issued in connection with the Company's participation in a trust preferred pooled transaction. The subordinated debt securities and corresponding trust preferred securities have a term of thirty years and have an adjustable rate of interest indexed to the three-month LIBOR plus 3.45%. Under applicable regulatory guidelines, the debt instrument from the sale of trust preferred securities qualifies as capital for regulatory purposes. The increase in deposits was primarily comprised of a $7.4 million increase in interest bearing deposits. The increase in interest bearing deposits was comprised of a $7.5 million increase in money management accounts, a $1.5 million increase in savings accounts and a $220,000 increase in time deposits, partially offset by a $1.4 million decrease in NOW accounts. The increase in deposit accounts is primarily due to the Company's active efforts in sales training and relationship building during a period when consumers are seeking the safety and fixed returns of bank deposits.

Liquidity and Capital Resources

Shareholders' equity increased $795,000, or 3.6%, to $23.0 million at June 30, 2002 from $22.2 million at December 31, 2001. The increase in shareholders' equity is primarily the result of a $675,000 increase in retained earnings. The increase in retained earnings is a result of net income of $814,000 offset by dividends declared of $139,000 during the first six months of 2002.

The Company's primary sources of funds are deposits, amortization and prepayment of loans and maturities of investment securities and other short-term investments, earnings and funds provided from operations and borrowings. While scheduled principal repayments on loans are a relatively predictable source of

funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company manages the pricing of deposits to maintain a desired deposit balance. In addition, the Company invests excess funds in short-term interest-bearing instruments and other assets, which provide liquidity to meet lending requirements. For additional information about cash flows from the Company's operating, financing, and investing activities, see Statements of Cash Flows included in the Financial Statements. The Company adjusts its liquidity levels in order to meet funding needs of deposit outflows, payment of real estate taxes on mortgage loans and loan commitments. The Company also adjusts liquidity as appropriate to meet its assets and liability management objectives.

Results of Operations

The Company recorded net income of approximately $312,000 for the three months ended June 30, 2002, as compared to $356,000 for the same period during 2001. The decrease in net income of $44,000, or 12.4%, for the three months ended June 30, 2002, was primarily the result of loan charge offs totaling $560,000, and the establishment of additional reserves of $347,000. These actions were taken to recognize the deterioration in the asset quality of two commercial loan relationships totaling $1.5 million. Additionally, operating expenses increased $242,000, or 14.0%, offset by an increase in net interest income of $290,000, or 15.3%, an increase in other income of $364,000, or 48.6% and a $32,000, or 23.0%, decrease in the provision for income taxes.

For the six months ended June 30, 2002, the Company recorded net income of $814,000 as compared to $623,000 for the same period in the prior year. The increase in net income of $192,000, or 30.8%, for the six months ended June 30, 2002, was primarily the result of an increase in net interest income of $641,000, or 17.1%, an increase in other income of $400,000, or 36.0%, offset by an increase in other operating expenses of $296,000, or 8.6%.

Annualized return on average assets and return on average shareholders' equity were 0.50% and 5.38%, respectively, for the three months ended June 30, 2002 compared to 0.61% and 7.09% for the second quarter of 2001. Earnings per share - basic was $.12 for the second quarter of 2002 compared to $.14 for the same period in 2001. For the six months ended June 30, 2002, the same performance measurements were 0.66% and 7.08%, as compared to 0.54% and 6.27% for the same period in the prior year. Earnings per share-basic for the six months ended June 30, 2002 was $.32 compared to $.24 for the same period in 2001.

Interest Income

Three month period

Interest income, on a tax equivalent basis, totaled $3.9 million for the quarter ended June 30, 2002, as compared to $4.1 million for the quarter ended June 30, 2001, a decrease of $158,000, or 3.9%. Interest income was affected by a decrease in the tax equivalent yield on average interest-earning assets to 6.81% from 7.59% in the prior period, offset by an increase in the average balance of interest-earning assets to $231.6 million for the three months ended June 30,

2002 from $215.9 million in the prior year period. The decrease in the tax equivalent yield was a result of a lower interest rate environment during the second quarter of 2002 as compared to the same quarter in 2001. The yield decrease was mitigated by increased originations of residential and commercial real estate loans.

Interest income on loans receivable increased $151,000, or 4.9%, to $3.2 million for the three months ended June 30, 2002 as compared to the same period in the prior year. The increase in interest income on loans resulted from an increase in the average balance of loans receivable of $25.9 million, or 17.1% to $177.6 million at June 30, 2002, from $151.7 million at June 30, 2001, partially offset by a decrease in the average yield on loans receivable to 7.30% from 8.14%.

Interest income on the mortgage-backed securities portfolio decreased by $129,000, or 38.6%, to $205,000 for the three months ended June 30, 2002, from $334,000 for the three months ended June 30, 2001. The decrease in interest income on mortgage-backed securities resulted generally from a reduction in the average balance on mortgage-backed securities of $5.8 million and a decrease in the average yield on mortgage-backed securities to 5.35% from 6.29%.

Interest income on investment securities, on a tax equivalent basis, decreased $172,000, or 26.4%, for the three months ended June 30, 2002 to $480,000 from $652,000 for the same period in 2001. The decrease resulted primarily from a decrease in the average balance of investment securities, of $5.4 million, combined with a decrease in the tax equivalent yield of investment securities to 5.48% from 6.45%. The decrease in the average balance of investment securities resulted from the proceeds from calls and maturities of investments primarily being utilized to fund the Company's loan portfolio growth.

Six Month Period

Interest income, on a tax equivalent basis, totaled $8.0 million for the six months ended June 30, 2002, as compared to $8.3 million for the same period in 2001, a decrease of $369,000, or 4.4%. The decrease resulted primarily from a decrease in the tax-equivalent yield on interest-earning assets to 6.95% from 7.74%, partially offset by an increase in the average balance of interest-earning assets of $13.8 million, or 6.4%, to $228.9 million from $215.0 million.

For the six months ended June 30, 2002, interest income on loans receivable increased $275,000, or 4.4%, as compared to the same period in the prior year.

Average loans receivable increased $24.0 million while the yield on average loans receivable decreased to 7.41% from 8.22%.

For the six months ended June 30, 2002 and 2001, interest income on mortgage-backed securities was $474,000 and $696,000, respectively, a decrease of $222,000, or 31.9%. The decrease resulted primarily from a decrease in the average balance of mortgage-backed securities of $5.3 million, or 24.8%, combined with a decrease in the average yield on mortgage-backed securities to 5.88% from 6.48%. The decrease in the average balance of mortgage backed securities reflects the increase in prepayments experienced during the first six months of 2002 in response to the declining interest rate environment. The proceeds were utilized to fund the Company's loan growth.

For the six months ended June 30, 2002, tax equivalent interest income on investment securities decreased $419,000, or 30.3%, to $1.0 million compared to $1.4 million for the same period in 2001. The decrease resulted primarily from a decrease in the average balance of investment securities of $5.8 million and a decrease in the tax equivalent yield on investment securities to 5.49% from 6.77%.

Interest Expense

Three Month Period

Interest expense for the quarter ended June 30, 2002 decreased by approximately $452,000, or 20.7%, to $1.7 million from $2.2 million when compared to the same quarter for 2001. The decrease in interest expense for the period was principally the result of the decrease in the average cost of interest bearing deposits to 2.90% from 4.09% and the decrease in the average cost of borrowed funds to 4.52% from 5.47%. These decreases were partially offset by an increase of $5.3 million in the average balance of interest bearing deposits and a $6.7 million increase in the average balance of borrowed funds.

Six Month Period

For the six months ended June 30, 2002, interest expense decreased $971,000, or 21.6%, when compared to the first six months of 2000. The decrease in interest expense for the period was the result of a decrease in the average cost of interest bearing liabilities to 3.35% from 4.51%, offset by an increase in the average balance of interest bearing liabilities of $11.1 million.

Net Interest Income

Net interest income increased $295,000, or 15.4%, to $2.2 million, on a tax equivalent basis, for the quarter ended June 30, 2002, when compared to the same period in the prior year.

For the six months ended June 30, 2002, net interest income increased $602,000, or 15.7%, when compared to the same period in the prior year.

Net interest margin for the quarter ended June 30, 2002 increased to 3.82% from 3.55% when compared to the same period in the prior year. For the six months ended June 30, 2002, net interest margin increased to 3.88% from 3.57%. The increase in the net interest margin is the result of an increase in net interest income, on a tax equivalent basis, partially offset by the increase in the average balance of interest earning assets for the periods presented.

Provision for Loan Losses

The Company maintains an allowance for loan losses based upon a quarterly evaluation of known and inherent risks in the loan portfolio, which includes a review of the balances and composition of the loan portfolio as well as analyzing the level of delinquencies in each segment of the loan portfolio. Loan loss reserves are based upon a methodology that uses loss factors applied to loan balances and reflects actual loss experience, delinquency trends, and current economic conditions, as well as standards applied by the Federal Deposit Insurance Corporation. The Company established a provision for loan losses for the three months ended June 30, 2002 of $907,000, as compared to a provision of $419,000 for the three months ended June 30, 2001. For the six months ended June 30, 2002, the provision for loan losses was $1.1 million as compared to $540,000 for the same period in 2001. The increase in provision for loan losses is attributable to loan charge offs totaling $560,000 and the establishment of additional reserves of $347,000. These actions were taken to recognize the deterioration in the asset quality of two commercial loans relationships totaling $1.5 million, as well as an increase in the loan receivable balance and an increase in delinquencies in the loan portfolio. The Company's ratios of allowance for loan losses to total loans receivable and to non-performing loans at June 30, 2002 were 1.25% and 61.15%, respectively, as compared to 1.01% and 81.58% at June 30, 2001.

Non-interest Income

The Company's non-interest income is principally comprised of fees on deposit accounts and transactions, loan servicing, commissions, and net securities gains and losses. Non-interest income, net of gains and losses from the sale of securities, loans, and other real estate, increased $73,000, or 22.5%, for the quarter ended June 30, 2002, as compared to the same period in the prior year. The increase in non-interest income is primarily attributable to a $16,000 increase in service charges on deposit accounts, a $42,000 increase in loan servicing fees, and an $11,000 increase in other charges, commissions and fees. Gains and losses on the sale of securities, loans and other real estate increased $290,000 for the quarter ended June 30, 2002 compared to the same period in the prior year. This increase was primarily the result of a gain of $573,000 from the sale of the Company's holdings in an equity security.

For the six months ended June 30, 2002, non-interest income increased $400,000, or 36.0%, compared to the same period in 2001. Non-interest income, net of gains and losses from the sale of securities, loans and other real estate, increased $146,000, or 23.5%, for the six months ended June 30, 2002 as compared to June 30, 2001. Gains and losses on the sale of securities, loans and other real estate increased $254,000 for the period ending June 30, 2002 as compared to the same period in 2001.

Non-interest Expense

Non-interest expense increased $242,000, or 14.0%, to $2.0 million for the quarter ended June 30, 2002, when compared to the same period in the prior year. The increase in operating expense was due to a $223,000, or 30.6%, increase in salary expenses, and a $39,000, or 20.8%, increase in professional and other services. The increase in salary expense was primarily the result of hiring an in-house legal counsel and staff and a senior commercial loan officer. It is anticipated that the addition of an in-house counsel will result in a reduction of legal expenses and provide additional revenue generating opportunities for the Company in the future. These increases were partially offset by decreases in building occupancy, data processing and other expenses of $7,000, $3,000 and $9,000, respectively.

For the six months ending June 30, 2002, operating expenses increased $296,000, or 8.6%, to $3.7 million from $3.4 million for the same period in 2001. The increase in operating expenses was the result of a $247,000, or 16.6%, increase in salary expenses, a $27,000, or 7.3%, increase in data processing expenses, a $50,000, or 14.1%, increase in professional services and a $29,000, or 4.6%, increase in other operating expenses. These expenses were offset by a reduction of $58,000, or 13.6%, in building occupancy charges.

Income Taxes

Income taxes decreased $32,000 for the quarter ended June 30, 2002 as compared to the same period in the prior year. This increase was attributable to a $76,000 decrease in the Company's pre-tax income.

For the six months ended June 30, 2002, income taxes increased $24,000, or 9.4%, as compared to the six months ended June 30, 2001.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's most significant form of market risk is interest rate risk, as the majority of the Company's assets and liabilities are sensitive to changes in interest rates. The Company's mortgage loan portfolio, consisting primarily of loans on residential real property located in Oswego County, is subject to risks associated with the local economy. The Company's interest rate risk management program focuses primarily on evaluating and managing the composition of the Company's assets and liabilities in the context of various interest rate scenarios. Factors beyond management's control, such as market interest rates and competition, also have an impact on interest income and interest expense.

The extent to which such assets and liabilities are "interest rate sensitive" can be measured by an institution's interest rate sensitivity "gap". An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and that amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income while a positive gap would tend to positively affect net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to positively affect net interest income while a positive gap would tend to adversely affect net interest income.

The Company does not generally maintain in its portfolio fixed interest rate loans with terms exceeding 20 years. The Company manages interest rate and credit risk associated on the mortgage loans held for sale and outstanding loan commitments through utilization of forward sale commitments of mortgage-backed securities for the purpose of passing along these risks to acceptable third parties. Management generally enters into forward sale commitments to minimize the exposure to longer term fixed rate mortgages in mortgage loans held for sale and mortgage commitments where interest rate locks have been granted. The fair value of forward sale commitments was not material at June 30, 2002. To manage interest rate risk within the portfolio, ARM loans are originated with terms that provide that the interest rate on such loans cannot adjust below the initial rate. Generally, the Company tends to fund longer-term loans and mortgage-backed securities with shorter-term time deposits, repurchase agreements, and advances. The impact of this asset/liability mix creates an inherent risk to earnings in a rising interest rate environment. In a rising interest rate environment, the Company's cost of shorter-term deposits may rise faster than its earnings on longer-term loans and investments. Additionally, the prepayment of principal on real estate loans and mortgage-backed securities tends to decrease as rates rise, providing less available funds to invest in the higher rate environment. Conversely, as interest rates decrease, the prepayment of principal on real-estate loans and mortgage-backed securities tends to increase, causing the Company to invest funds in a lower rate environment. The potential impact on earnings from this mismatch is mitigated to a large extent by the size and stability of the Company's savings accounts. Savings accounts

have traditionally provided a source of relatively low cost funding that have demonstrated historically a low sensitivity to interest rate changes. The Company generally matches a percentage of these, which are deemed core, against longer-term loans and investments. In addition, the Company has sought to extend the terms of its time deposits. In this regard, the Company has, on occasion, offered certificates of deposits with three and four year terms which allow depositors to make a one-time election, at any time during the term of the certificate of deposit, to adjust the rate of the certificate of deposit to the then prevailing rate for a certificate of deposit with the same term. The Company has further sought to reduce the term of a portion of its rate sensitive assets by originating one year ARM loans, three year/one year and five year/one year ARM loans (mortgage loans which are fixed rate for the first three or five years and adjustable annually thereafter), and by maintaining a relatively short term investment securities (original maturities of three to five years) portfolio with staggered maturities.

The Company manages its interest rate sensitivity by monitoring (through simulation and net present value techniques) the impact on its GAP position, net interest income, and the market value of portfolio equity to changes in interest rates on its current and forecast mix of assets and liabilities. The Company has an Asset-Liability Management Committee which is responsible for reviewing the Company's assets and liability policies, setting prices and terms on rate-sensitive products, and monitoring and measuring the impact of interest rate changes on the Company's earnings. The Committee meets monthly on a formal basis and reports to the Board of Directors on interest rate risks and trends, as well as liquidity and capital ratios and requirements. The Company does not have a targeted gap range, rather the Board of Directors has set parameters of percentage change by which net interest margin and the market value of portfolio equity are affected by changing interest rates. The Board and management deem these measures to be a more significant and realistic means of measuring interest rate risk.

Management anticipates that the Company's net interest margin ratio for the last quarter of 2002 and the first two quarters of 2003, will decrease as the Company invests, into the current interest rate environment, the cash proceeds associated with the trust preferred security issuance and the deposits received from the future Cayuga Bank branch acquisition.

GAP ANALYSIS. At June 30, 2002, the total interest bearing liabilities maturing or repricing within one year exceeded total interest-earning assets maturing or repricing in the same period by $3.4 million, representing a cumulative one-year gap ratio of a negative 1.31%.

CHANGES IN NET INTEREST INCOME AND NET PORTFOLIO VALUE. The following table measures the Company's interest rate risk exposure in terms of the percentage change in its net interest income and net portfolio value as a result of hypothetical changes in 50 basis point increments in market interest rates. Net portfolio value (also referred to as market value of portfolio equity) represents the fair value of net assets (determined as the market value of assets minus the market value of liabilities). The table quantifies the changes in net interest income and net portfolio value to parallel shifts in the yield curve. The column "Net Interest Income Percent Change" measures the change to the next twelve months' projected net interest income, due to parallel shifts in the yield curve. The column "Net Portfolio Value Percent Change" measures changes in the current net mark-to-market value of assets and liabilities due to parallel shifts in the yield curve. The base case assumes June 30, 2002

interest rates. The Company uses these percentage changes as a means to measure interest rate risk exposure and quantifies those changes against guidelines set by the Board of Directors as part of the Company's Interest Rate Risk policy. The Company's current interest rate risk exposure is within those guidelines set forth.

Change in Interest Rates Increase(Decrease) Basis Points (Rate Shock)	Net Interest Income Percentage Change	Net Portfolio Value Percentage Change
300	-8.44%	-22.07%
200	-5.30%	-14.18%
100	-2.22%	-6.27%
Base Case		
(100)	-0.77%	-0.43%
(200)	-2.57%	-4.26%
(300)	-5.11%	-9.90%

The negative percentage change from the base case in the downward interest rate scenario is the result of deposit product interest rate floors incorporated into the modeling, causing the assets to continue to reprice downward while the cost of funds remains relatively stable.

PART II - OTHER INFORMATION

LEGAL PROCEEDINGS

From time to time, the Company is involved as a plaintiff or defendant in various legal actions incident to its business. None of these actions individually or in the aggregate is believed to be material to the financial condition of the Company

On November 28, 2001, the Company and its Board of Directors were named as defendants in Jewelcor Management, Inc. ("Jewelcor") v. Pathfinder Bancorp, Inc., et al. This action was filed in the United States District Court, Northern District. In its complaint, Jewelcor alleges that the Company's directors breached their fiduciary duties to the Company by failing to consider an offer from Fulton Savings Bank for the sale of the Company. Jewelcor is seeking damages in excess of $1 million, punitive damages in excess of $10 million and equitable relief. Management and the Board of Directors of the Company have carefully reviewed Jewelcor's complaint and believes that it is without merit. The Company has filed a motion to dismiss the complaint. Oral arguments for the motion to dismiss were heard on April 5, 2002 before the United States District Court for the Northern District of New York. No decision on the motion has been rendered at this date.

CHANGES IN SECURITIES

Not applicable

DEFAULTS UPON SENIOR SECURITIES

Not applicable

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Meeting of Shareholders was held on April 24, 2002. The following are the items voted on and the results of the shareholder voting.

1. The election of Chris C. Gagas, Thomas W. Schneider, Chris Burritt and Raymond Jung to serve as directors of the Company, each for a term of three years or until his successor has been elected and qualified.

Name	For	Withheld
Chris C. Gagas	2,350,427	217,510
Thomas W. Schneider	2,350,427	217,510
Chris R. Burritt	2,351,384	216,553
Raymond W. Jung	2,351,384	216,553

Set forth below are the names of the other directors of the Bank and their terms of office.

Name	Term Expires
Bruce E. Manwaring	2003
L. William Nelson	2003
George P. Joyce	2003
Steven W. Thomas	2004
Corte J. Spencer	2004
Janette Resnick	2004

2. The ratification of the appointment of Pricewaterhouse Coopers, LLP as auditors for the fiscal year ending December 31, 2002.

	For	Against	Abstain
Number of Votes	2,406,921	161,016	0

OTHER INFORMATION

On June 18, 2002 the Board of Directors declared a $.07 cash dividend to shareholders of record as of June 30, 2002, payable on July 15, 2002.

EXHIBITS AND REPORTS ON FORM 8-K

Exhibit 99.1 - Officers' Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

20

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Thomas W. Schneider, Chief Executive Officer and James A. Dowd, Chief Financial Officer of Pathfinder Bancorp, Inc. (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the quarterly report on Form 10-Q for the quarter ended June 30, 2002 and that to his knowledge:

(1) the report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations.

August 13, 2002	/s/ Thomas W. Schneider
Date	Chief Executive Officer

August 13, 2002	/s/ James A. Dowd
Date	Chief Financial Officer

21

SIGNATURES

Under the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PATHFINDER BANCORP, INC.

	/s/ Thomas W. Schneider
Date: August 13, 2002	Thomas W. Schneider President, Chief Executive Officer
	/s/ James A. Dowd
Date: August 13, 2002	James A. Dowd Vice President, Chief Financial Officer

22