PATHFINDER BANCORP INC
Form 10QSB
August 14, 2007

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

FORM 10-QSB

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

For the quarterly period ending June 30, 2007
OR

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number: 000-23601

PATHFINDER BANCORP, INC.
(Exact Name of Small Business Issuer as Specified in its Charter)

FEDERAL	16-1540137
(State or Other Jurisdiction of Incorporation or Organization)	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)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the issuer was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ].

Indicate by check mark whether the small business issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 10, 2007, there were 2,970,819 shares issued and 2,483,532 shares outstanding of the Small Business Issuer's Common Stock.

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

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PART I - FINANCIAL INFORMATION
ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CONDITION
JUNE 30, 2007 AND DECEMBER 31, 2006
(UNAUDITED)

(In thousands, except share data)	June 30, 2007
ASSETS	
Cash and due from banks	$ 7,037
Interest earning deposits	351
Total cash and cash equivalents	7,388
Investment securities, at fair value	69,625

Federal Home Loan Bank stock, at cost	1,318
Loans	205,726
Less: Allowance for loan losses	1,561
Loans receivable, net	204,165
Premises and equipment, net	7,585
Accrued interest receivable	1,759
Foreclosed real estate	449
Goodwill	3,840
Intangible asset, net	70
Bank owned life insurance	6,325
Other assets	2,032
Total assets	$ 304,556
LIABILITIES AND SHAREHOLDERS' EQUITY	
Deposits:	
Interest-bearing	$ 232,401
Noninterest-bearing	22,424
Total deposits	254,825
Short-term borrowings	3,400
Long-term borrowings	17,010
Junior subordinated debentures	5,155
Other liabilities	3,405
Total liabilities	283,795
Shareholders' equity:	
Preferred stock, authorized shares 1,000,000; no shares issued or outstanding	
Common stock, par value $0.01; authorized 10,000,000 shares; 2,970,819 and 2,953,619 shares issued; and 2,483,532 and 2,466,332 shares outstanding, respectively	30
Additional paid in capital	7,899
Retained earnings	21,288
Accumulated other comprehensive loss	(1,954)
Treasury Stock, at cost; 487,287 shares	(6,502)
Total shareholders' equity	20,761
Total liabilities and shareholders' equity	$ 304,556

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the three	For the three

(In thousands, except per share data)	months ended June 30, 2007	months ended June 30, 2006
INTEREST AND DIVIDEND INCOME:		
Loans, including fees	$ 3,434	$ 3,137
Debt securities:		
Taxable	676	626
Tax-exempt	42	98
Dividends	85	67
Interest earning deposits	100	4
Total interest income	4,337	3,932
INTEREST EXPENSE:		
Interest on deposits	1,760	1,279
Interest on short-term borrowings	12	116
Interest on long-term borrowings	451	458
Total interest expense	2,223	1,853
Net interest income	2,114	2,079
Provision for loan losses	75	1
Net interest income after provision for loan losses	2,039	2,078
NONINTEREST INCOME:		
Service charges on deposit accounts	375	350
Earnings on bank owned life insurance	57	51
Loan servicing fees	81	58
Net losses on sales of investment securities	-	(7)
Net gains on sales of loans and foreclosed real estate	7	2
Debit card interchange fees	68	47
Other charges, commissions and fees	103	105
Total noninterest income	691	606
NONINTEREST EXPENSE:		
Salaries and employee benefits	1,274	1,183
Building occupancy	312	306
Data processing expenses	352	306
Professional and other services	226	116
Amortization of intangible asset	55	55
Other expenses	308	344
Total noninterest expenses	2,527	2,310
Income before income taxes	203	374
Provision for income taxes	37	71
NET INCOME	$ 166	$ 303
NET INCOME PER SHARE - BASIC	$ 0.07	$ 0.12
NET INCOME PER SHARE - DILUTED	$ 0.07	$ 0.12
DIVIDENDS PER SHARE	$ 0.1025	$ 0.1025

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share data)	For the six months ended June 30, 2007	For the six months ended June 30, 2006
INTEREST AND DIVIDEND INCOME:		
Loans, including fees	$ 6,847	$ 6,194
Debt securities:		
Taxable	1,314	1,267
Tax-exempt	86	196
Dividends	166	128
Interest earning deposits	193	12
Total interest income	8,606	7,797
INTEREST EXPENSE:		
Interest on deposits	3,495	2,528
Interest on short-term borrowings	12	177
Interest on long-term borrowings	864	896
Total interest expense	4,371	3,601
Net interest income	4,235	4,196
PROVISION FOR LOAN LOSSES	125	23
Net interest income after provision for loan losses	4,110	4,173
NONINTEREST INCOME:		
Service charges on deposit accounts	708	721
Earnings on bank owned life insurance	113	100
Loan servicing fees	145	105
Net losses on sales of securities	(3)	(9)
Net losses on sales of loans/real estate	-	(5)
Debit card interchange fees	116	89
Other charges, commissions & fees	203	198
Total noninterest income	1,282	1,199
NONINTEREST EXPENSE:		
Salaries and employee benefits	2,501	2,458
Building occupancy	630	622
Data processing expenses	694	630
Professional and other services	463	231
Amortization of intangible asset	111	111
Other expenses	586	669
Total noninterest expenses	4,985	4,721
Income before income taxes	407	651
Provision for income taxes	76	108

NET INCOME	$ 331	$ 543
NET INCOME PER SHARE - BASIC	$ 0.13	$ 0.22
NET INCOME PER SHARE - DILUTED	$ 0.13	$ 0.22
DIVIDENDS PER SHARE	$ 0.205	$ 0.205

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND JUNE 30, 2006
(unaudited)

(Dollars in thousands, except share data	Common Issued Shares	Amount	Additional Paid in Capital	Retained Earnings	
BALANCE, DECEMBER 31, 2006	2,953,619	$ 29	$ 7,786	$ 21,307	$
Comprehensive income					
Net income				331	
Other comprehensive loss, net of tax					
Unrealized net losses on securities					
Total Comprehensive income					
Stock options exercised	17,200	1	113		
Dividends declared ($.2050 per share)				(350)	
BALANCE, JUNE 30, 2007	2,970,819	$ 30	$ 7,899	$ 21,288	$
BALANCE, DECEMBER 31, 2005	2,950,419	$ 29	$ 7,721	$ 20,965	$
Comprehensive income					
Net income				543	
Other comprehensive loss, net of tax					
Unrealized net losses on securities					
Total Comprehensive loss					
Dividends declared ($.2050 per share)				(342)	
BALANCE, JUNE 30, 2006	2,950,419	$ 29	$ 7,721	$ 21,166	$

Total

(Dollars in thousands, except per share data)	
BALANCE, DECEMBER 31, 2006	$20,850
Comprehensive income	
Net income	331
Other comprehensive loss, net of tax	
Unrealized net losses on securities	(184)
Total Comprehensive income	147
Stock options exercised	114
Dividends declared ($.2050 per share)	(350)
BALANCE, JUNE 30, 2007	$20,761
BALANCE, DECEMBER 31, 2005	$20,928
Comprehensive income	
Net income	543
Other comprehensive loss, net of tax	
Unrealized net losses on securities	(550)
Total Comprehensive loss	(7)
Dividends declared ($.2050 per share)	(342)
BALANCE, JUNE 30, 2006	$20,579

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

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	For the six months ended June 30, 2007	For the six months ended June 30, 2006
OPERATING ACTIVITIES		
Net income	$ 331	$ 543
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	125	23
Proceeds from sales of loans	3,000	-
Originations of loans held-for-sale	(3,006)	-
Realized (gains) losses on sale of:		
Foreclosed real estate	(6)	5
Loans	6	-
Available-for-sale investment securities	3	9
Premises and equipment	-	(8)
Depreciation	380	377
Amortization of intangible asset	111	111
Amortization of deferred financing costs	15	15

Amortization of mortgage servicing rights	26	55
Increase in value of bank owned life insurance	(113)	(100)
Net amortization of premiums on investment securities	49	65
(Increase) decrease in accrued interest receivable	(65)	28
Net change in other assets and liabilities	(241)	1,267
NET CASH PROVIDED BY OPERATING ACTIVITIES	615	2,390
INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(13,270)	(10,943)
Net redemption (purchases) of FHLB stock	261	(219)
investment securities available-for-sale	5,927	9,930
Proceeds from sale:		
Available-for-sale investment securities	-	1,941
Foreclosed real estate	132	50
Premises and equipment	33	145
Net increase in loans	(2,686)	(3,523)
Purchase of premises and equipment	(401)	(215)
NET CASH USED IN INVESTING ACTIVITIES	(10,004)	(2,834)

PATHFINDER BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	For the six months ended June 30, 2007	For the six months ended June 30, 2006
FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits, NOW accounts savings accounts, money market deposit accounts and escrow deposits	4,322	(10,435)
Net increase in time deposits	4,918	6,129
Net proceeds from short term borrowings	3,400	5,900
Payments on long-term borrowings	(10,350)	(1,000)
Proceeds from long-term borrowings	1,000	-
Proceeds from trust preferred obligation	5,000	-
Payments on trust preferred obligation	(5,000)	-
Proceeds from exercise of stock options	114	-
Cash dividends paid	(350)	(342)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,054	252
DECREASE IN CASH AND CASH EQUIVALENTS	(6,335)	(192)
Cash and cash equivalents at beginning of period	13,723	7,895
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,388	$ 7,703
NON-CASH INVESTING ACTIVITY		
Transfer of loans to foreclosed real estate	$ 109	$ -

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

PATHFINDER BANCORP, INC.
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 U.S. generally accepted accounting principles for interim financial information and the instructions for Form 10-QSB and Regulation S-B. 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 2006 consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income as previously reported. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included.

The following material under the heading "Management's Discussion and Analysis or Plan of Operation" 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 or Plan of Operation as of December 31, 2006 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.

Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

(2) EARNINGS PER SHARE

Basic earnings per share has been computed by dividing net income by the weighted average number of common shares outstanding throughout the three months and six months ended June 30, 2007 and 2006, using 2,483,532 and 2,463,132 weighted average common shares outstanding for the three months ended and 2,482,557 and 2,463,132 for the six months ended, respectively. Diluted earnings per share for the three months and six months ended June 30, 2007 and 2006 have been computed using 2,490,116 and 2,480,947 for the three months ended and 2,490,085 and 2,481,360 for the six months ended, respectively. Diluted earnings per share gives effect to weighted average shares that would be outstanding assuming the exercise of issued stock options using the treasury stock method.

(3) PENSION BENEFITS

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

(IN THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2007	2006	FOR THE SIX MONTHS ENDED JUNE 30, 2007	2006
Service cost	$ 49	$ 48	$ 98	$ 96
Interest cost	68	63	136	126
Expected return on plan assets	(98)	(92)	(196)	(184)
Amortization of net losses	22	28	44	56
NET PERIODIC COST	$ 41	$ 47	$ 82	$ 94

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2006, that it expected to contribute $190,000 to its pension plan in 2007. As of June 30, 2007, $89,000 had been contributed to the pension plan.

(4) OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss and related tax effects are as follows:

(IN THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2007	2006	FOR THE SIX MONTHS ENDED JUNE 30, 2007	2006
Gross change in unrealized losses on securities available for sale	$ (406)	$(829)	$ (309)	$(917)
Reclassification adjustment for losses included in net income	-	7	3	9
	(406)	(822)	(306)	(908)
Tax effect	162	329	122	358
NET OF TAX AMOUNT	$ (244)	$ (493)	$ (184)	$(550)

The components of accumulated other comprehensive loss, net of related tax effects are as follows:

(IN THOUSANDS)	JUNE 30, 2007	DECEMBER 31, 2006
Unrealized losses on available for sale securities	$ (1,033)	$ (849)
Unrecognized pension and other postretirement benefit losses	(921)	(921)

	$ (1,954)	$ (1,770)

(5) GUARANTEES

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Company, generally, holds collateral and/or personal guarantees supporting these commitments. The Company had $818,000 of standby letters of credit as of June 30, 2007. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of June 30, 2007 for guarantees under standby letters of credit issued is not material.

(6) NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that companies recognize in their financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. In May 2007, the FASB issued FASB Staff Position ("FSP") FIN 48-1 "Definition of Settlement in FASB Interpretation No 48" (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The provision of FIN 48 and FSP FIN 48-1 are effective

for years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted the provisions of FIN 48 and FSP FIN 48-1, as required, on January 1, 2007, with no impact on the Company's consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ("SFAS 157") which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of SFAS 157 on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115, ("SFAS 159"). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for the Company as of January 1, 2008, unless early adoption is elected. The Company is currently analyzing the effects of this interpretation but does not expect its implementation will have a significant impact on the Company's consolidated financial condition or results of operations.

EITF 06-4

In September 2006, the FASB's Emerging Issues Task Force (EITF) issued EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements" ("EITF 06-4"). EITF 06-4 requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The consensus highlights that the employer (who is also the policyholder) has a liability for the benefit it is providing to its employee. As such, if the policyholder has agreed to maintain the insurance policy in force for the employee's benefit during his or her retirement, then the liability recognized during the employee's active service period should be based on the future cost of insurance to be incurred during the employee's retirement. Alternatively, if the policy holder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106 or Accounting Principles Board (APB) Opinion No. 12, as appropriate. For transition, an entity can choose to apply the guidance using either of the following approaches: (a) a change in accounting principle through retrospective application to all periods presented or (b) a change in accounting principle through a cumulative-effect adjustment to the balance in retained earnings at the beginning of the year of adoption. The EITF is effective in fiscal years beginning after December 15, 2007, with early adoption permitted. The Company does not believe that the implementation of this guidance will have a material impact on the Company's consolidated financial statements.

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EITF 06-5

On September 7, 2006, the Task Force reached a conclusion on EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The adoption of EITF 06-5 did not have a material impact on the Company's consolidated financial statements.

EITF 06-10

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

GENERAL

Throughout the Management's Discussion and Analysis ("MD&A") the term, "the Company", refers to the consolidated entity of Pathfinder Bancorp, Inc and its wholly owned subsidiary, Pathfinder Bank. Pathfinder Commercial Bank, Pathfinder REIT, Inc. and Whispering Oaks Development, Inc. represent wholly owned subsidiaries of Pathfinder Bank. At June 30, 2007, Pathfinder Bancorp, M.H.C., the Company's mutual holding company parent, whose activities are not included in the MD&A, held 63.7% of the Company's common stock and the public held 36.3%.

The following discussion reviews the Company's financial condition at June 30, 2007 and the results of operations for the three months and six months ended June 30, 2007 and June 30, 2006.

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 that 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.

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 is also affected by its provision for loan losses, as well as by the amount of other income, including income from fees and service charges on deposit accounts, net gains and losses on sales of securities, loans and foreclosed real estate, and other expenses such as salaries and employee benefits, building 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 interest rates which tend to be highly cyclical have a significant impact on our earnings.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow practices within the banking industry. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value or when an asset or liability needs to be

recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices or are provided by other third-party sources, when available. When third party information is not available, valuation adjustments are estimated in good faith by management.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements included in the 2006 Annual Report on Form 10-K ("the Consolidated Financial Statements"). Beginning with its quarterly report for the March 31, 2007 quarter, the Company has elected to file its Exchange Act reports under the rules and regulations applicable to small business issuers.

These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the consolidated financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan losses to be the accounting area that requires the most subjective and complex judgments, and as such could be the most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Note 1 to the Consolidated Financial Statements describes the methodology used to determine the allowance for loan losses, and a discussion of the factors driving changes in the amount of the allowance for loan losses is included in this report.

The Company carries all of its investments at fair value with any unrealized gains or losses reported net of tax as an adjustment to shareholders' equity. Based on management's assessment, at June 30, 2007, the Company did not hold any security that had a fair value decline that is currently expected to be other than temporary. Consequently, any declines in a specific security's fair value below amortized cost have not been provided for in the consolidated income statement. The Company's ability to fully realize the value of its investment in various securities, including corporate debt securities, is dependent on the underlying creditworthiness of the issuing organization.

OVERVIEW

Net income was $166,000, or $0.07 per share, for the three months ended June 30, 2007, as compared to $303,000, or $0.12 per share, for the same period in 2006. During the second quarter of 2007, the Company continued its efforts toward transforming its more traditional thrift balance sheet with mostly residential loans as earning assets, toward that of a community bank with a more diverse mix of residential, consumer and commercial loans. On an average balance basis, total commercial loans comprised 30.1% of the total gross loan portfolio for the quarter ended June 30, 2007, as compared to 28.3% of the portfolio for the year ended December 31, 2006. For the six months ended June 30, 2007, the Company reported net income of $331,000, or $0.13 per diluted share as compared to $543,000, or $0.22 per diluted share, for the same period in 2006.

On March 22, 2007, the Company entered into a junior subordinated debenture for $5.0 million, with interest adjustable quarterly at a 1.65% spread over the 3-month LIBOR. The Company used the proceeds from that issuance to retire its original junior subordinated debenture on June 27, 2007, at its first call date. The original obligation was for $5.0 million, adjustable quarterly at a spread of 3.45% over the 3-month LIBOR. The new issuance and retirement of the original junior subordinated debenture will result in an approximate pre-tax annual savings of $90,000 to the Company.

Short-term borrowings increased $3.4 million during the first half of 2007. Long-term borrowings decreased $9.4 million, or 36%, when compared to December 31, 2006, as excess liquidity was used to pay off long-term advances as they matured.

RESULTS OF OPERATIONS

The return on average assets and return on average shareholders' equity were 0.21% and 3.15%, respectively, for the three months ended June 30, 2007, compared with 0.40% and 5.85%, respectively, for the three months ended June 30, 2006. During the second quarter of 2007, when compared to the second quarter of 2006, net interest income and core noninterest income increased $35,000 and $73,000, respectively, offset by increases in provision for loan losses and noninterest expenses of $74,000 and $217,000, respectively.

For the six months ended June 30, 2007, net interest income increased $39,000 and core noninterest income increased $72,000 when compared to the six months ended June 30, 2006. These increases were offset by increased provision for loan losses and noninterest expenses of $102,000 and $264,000, respectively.

NET INTEREST INCOME

Net interest income is the Company's primary source of operating income for payment of operating expenses and providing for loan losses. It is the amount by which interest earned on loans, interest-earning deposits and investment securities, exceeds the interest paid on deposits and other interest-bearing liabilities. Changes in net interest income and net interest margin result from the interaction between the volume and composition of interest-earning assets, interest-bearing liabilities, related yields and associated funding costs.

Net interest income, on a tax-equivalent basis remained relatively constant at

$2.1 million for the three months ended June 30, 2007 when compared to the same period of 2006. The Company's net interest margin for the second quarter of 2007 decreased to 2.99% from 3.11% when compared to the same quarter in 2006. Management expects continued margin compression to adversely impact earnings as we expect the yield curve will continue to be flat or inverted over the near term. Average interest-earning assets increased 5% to $286.6 million for the three months ended June 30, 2007 as compared to $273.5 million for the three months ended June 30, 2006 and the yield on interest-earning assets increased 28 basis points to 6.09% from 5.81% for the comparable periods. The increase in average interest-earning assets was primarily attributable to an $11.3 million increase in loans receivable and a $7.6 million increase in interest earning deposits, offset by a $5.7 million decrease in investment securities. For the three months ended June 30, 2007, average interest-bearing liabilities increased $8.1 million, or 3%, and the cost of funds increased 47 basis points to 3.35% from 2.88% for the same period in 2006. The increase in the average balance of interest-bearing liabilities resulted primarily from a $19.8 million, or 9%, increase in deposits, and a $5.1 million increase in junior subordinated debt, offset by a $16.8 million, or 44%, reduction in borrowed funds.

For the six months ended June 30, 2007, net interest income, on a tax-equivalent basis, remained constant at $4.3 million when compared to the same period of 2006. Net interest margin decreased 12 basis points, to 3.00% at June 30, 2007 from 3.12% at June 30, 2006. Average interest-earning assets increased 4% to $285.9 million for the six months ended June 30, 2007 as compared to $274.8 million for the six months ended June 30, 2006, and the yield on interest-earning assets increased 32 basis points to 6.06% from 5.74% for the comparable period. The increase in average interest-earning assets was primarily attributable to a $12.5 million increase in loans receivable and a $7.1 million increase in interest earning deposits, partially offset by an $8.4 million decrease in investment securities. Average interest-bearing liabilities increased $6.4 million and the cost of funds increased 52 basis points to 3.30% for the six months ended June 30, 2007, from 2.78% for the same period in 2006. The increase in the average balance of interest-bearing liabilities resulted primarily from a $16.8 million, or 8%, increase in average deposits and a $2.6 million increase in junior subordinated debt, partially offset by a $12.9 million, or 36%, reduction in borrowed funds.

INTEREST INCOME

Total interest income, on a tax-equivalent basis, for the quarter ended June 30, 2007, increased $390,000, or 10%, to $4.4 million from $4.0 million for the quarter ended June 30, 2006.

The average balance of loans increased $11.3 million to $203.2 million, with yields increasing 23 basis points to 6.78% for the second quarter of 2007. Average commercial real estate loans increased $7.8 million, and the yield on those loans increased to 7.89% from 7.69% from the year earlier period. Average commercial loans increased $2.8 million, and experienced an increase in the average tax-equivalent yield of 24 basis points, to 8.42% for the quarter ended June 30, 2007, from 8.18%, in the quarter ended June 30, 2006. The increase in the yield on commercial loans was primarily the result of new commercial loan originations occurring at market rates higher than the weighted average existing portfolio rate as well as the adjustable rate portions of the portfolios repricing upward in connection with upward adjustments in the prime rate. Average consumer loans increased $2.4 million, or 12%, and experienced an increase in yield of 37 basis points. The Company's municipal loan portfolio increased $272,000, or 10%, when comparing the second quarter of 2007 to the same period in 2006. The average yield on the municipal loan portfolio increased to 6.18% in the second quarter of 2007 from 5.56% for the same period in 2006. Offsetting the above increases, was a $2.1 million, or 2%, decrease in the average balance of residential real estate loans.

Average investment securities (taxable and tax-exempt) for the quarter ended June 30, 2007 decreased by $5.7 million, with a decrease in tax-equivalent interest income from investments of $11,000, or 1%, when compared to the second quarter of 2006. The average tax-equivalent yield of the portfolio increased 25 basis points, to 4.32% from 4.07%. The decrease in average investment securities was primarily due to the 4th quarter 2006 sale of municipal securities which was used to pay down long-term borrowings.

For the quarter ended June 30, 2007, interest income on interest earning deposits increased $99,000, as the average balance of interest earning deposits increased $7.7 million and the yield on those deposits increased to 5.22% from 4.00%, when compared to the same quarter of 2006. The increase was primarily due to the short-term investment of the proceeds from the second junior subordinated debenture combined with liquidity generated from deposit growth out pacing general loan demand.

Total interest income, on a tax-equivalent basis, for the six months ended June 30, 2007 increased $775,000, or 10%, when compared to the six months ended June 30, 2006.

Average loans increased $12.5 million, with yields increasing 24 basis points to 6.73% from 6.49%. The average balance of commercial real estate loans increased $8.0 million, with yields increasing to 7.75% from 7.63%, average commercial loans increased $4.2 million, with yields increasing to 8.49% from 8.09% and average consumer loans increased $1.9 million, with yields increasing to 8.36% from 7.87% for the six months ended June 30, 2007, as compared to the same period in 2006. These increases were offset by decreases in the average balance of residential real estate loans of $1.6 million.

For the six months ended June 30, 2007, tax-equivalent interest income from investment securities decreased $67,000, or 4%, compared to the same period in 2006. The average tax-equivalent yield of the portfolio increased 28 basis points, to 4.30% from 4.02%, offset by an $8.4 million decrease in the average balance of investment securities, due to the sale of municipal investment securities mentioned above.

For the six months ended June 30, 2007, interest income on interest earning deposits increased $184,000, as the average balance of interest earning deposits increased $7.1 million and the yield on those deposits increased to 5.01% from 2.97%, when compared to the same period of 2006. The increase was primarily due to the short-term investment of the proceeds from the second junior subordinated debenture combined with liquidity generated from deposit growth out pacing general loan demand.

INTEREST EXPENSE

Total interest expense increased $370,000 for the three months ended June 30, 2007 compared to the same quarter in 2006, as the cost of funds increased 47 basis points to 3.35% in 2007 from 2.88% in 2006. Average time deposits increased $23.0 million, combined with a 63 basis point increase to 4.55% from 3.91%. Average MMDA accounts increased $3.5 million, combined with a 41 basis point increase to 4.13% from 3.72%. These increases were offset by decreases in average money management accounts to $11.7 million in 2007 from $13.6 million in

2006, and average savings accounts to $54.2 million in 2007 from $60.3 million in 2006. Interest expense on borrowings decreased by $111,000, or 19%, from the prior period. The decrease in interest expense on borrowings was the result of a $16.8 million decrease in the average balance of borrowed funds. This decrease was offset by a $5.1 million increase in average debt from a second junior subordinated debenture entered into in March 2007. The new $5.1 million issuance has an interest rate which adjusts quarterly at a 1.65% spread over the 3-month LIBOR. The original debenture was for $5.1 million, adjustable quarterly at a spread of 3.45% over the 3-month LIBOR. During the second quarter of 2007, the Company had carried both of these junior subordinated debentures until the original issuance was retired on June 27, 2007 at its first call date. The cost of funds for the new junior subordinated debenture decreased 77 basis points to 7.81% for the three months ended June 30, 2007, as compared to the original junior subordinated debenture cost of 8.58% for the three months ended June 30, 2006. The Company used the proceeds from the new issuance to retire its original junior subordinated debenture on June 27, 2007, at its first call date. The new issuance and retirement of the original junior subordinated debenture will result in an approximate pre-tax annual savings of $90,000 to the Company.

For the six months ended June 30, 2007, interest expense increased $770,000 when compared to the six months ended June 30, 2006. Deposit interest expense for the comparable periods increased $967,000 or 38%. Average time deposits increased $23.7 million, combined with a 69 basis point increase to 4.50% from 3.81%. Average MMDA accounts increased $903,000 million, combined with a 59 basis point increase to 4.15% from 3.56%. These increases were offset by decreases in average savings accounts to $54.5 million in 2007 from $61.3 million in 2006 and average money management accounts to $11.8 million in 2007 from $13.9 million in 2006. Interest expense on borrowings decreased by $197,000, or 36%, from the prior period. The decrease in interest expense on borrowings was the result of a $12.9 million, or 36%, decrease in the average balance of borrowed funds. This decrease was offset by an increase in average junior subordinate debt of $2.6 million due to a second junior subordinate debt entered into in March 2007. The original $5.0 million issuance was retired on June 27, 2007. The cost of funds for the two junior subordinated debentures increased slightly to 8.30% for the six months ended June 30, 2007 as compared to 8.28% for the six months ended June 30, 2006.

PROVISION FOR LOAN LOSSES

Provision for loan losses for the quarter ended June 30, 2007 increased to $75,000 from $1,000 for the same period in 2006. The increased provision is reflective of a growing loan portfolio and one more heavily weighted to commercial term and commercial real estate, which have higher inherent risk characteristics than a consumer real estate portfolio. Offsetting the need for an increased provision for loan losses from a growing portfolio, is improvement in asset quality. The Company's ratio of allowance for loan losses to period end loans has increased slightly to 0.76% at June 30, 2007 from 0.74% at December 31, 2006 and decreased from 0.86% at June 30, 2006. Non-performing loans to period end loans have decreased to 0.61% at June 30, 2007 from 0.73% at June 30, 2006.

NONINTEREST INCOME

The Company's noninterest income is primarily comprised of fees on deposit account balances and transactions, loan servicing, commissions, and net gains (losses) on securities, loans and foreclosed real estate.

The following table sets forth certain information on noninterest income for the periods indicated:

(DOLLARS IN THOUSANDS)	FOR THE THREE MONTHS ENDED JUNE 30, 2007	2006	$CHANGE	% CHANGE
Service charges on deposit accounts	$ 375	$ 350	$ 25	7.1%
Earnings on bank owned life insurance	57	51	6	11.8%
Loan servicing fees	81	58	23	39.7%
Debit card interchange fees	68	47	21	44.7%
Other charges, commissions and fees	103	105	(2)	-1.9%
Core noninterest income	684	611	73	11.9%
Net losses on sales of investment securities	-	(7)	7	-100.0%
Net gains on sale of loans and foreclosed real estate	7	2	5	250.0%
TOTAL NONINTEREST INCOME	$ 691	$ 606	$ 85	14.0%

(DOLLARS IN THOUSANDS)	FOR THE SIX MONTHS ENDED JUNE 30 2007	2006	$CHANGE	% CHANG
Service charges on deposit accounts	$ 708	$ 721	$ (13)	-1.
Earnings on bank owned life insurance	113	100	13	13.
Loan servicing fees	145	105	40	38.
Debit card interchange fees	116	89	27	30.
Other charges, commissions and fees	203	198	5	2.
Core noninterest income	1,285	1,213	72	5.
Net losses on sales of investment securities	(3)	(9)	6	-66.
Net losses on sale of loans and foreclosed real estate	-	(5)	5	-100.
TOTAL NONINTEREST INCOME	$1,282	$1,199	$ 83	6.

For the three months ended June 30, 2007, core noninterest income reflected an increase of $73,000, or 12%, when compared with the three months ended June 30, 2006. The increase in service charges on deposit accounts was primarily attributable to an increase in the number of deposit accounts and the fees associated with deposit accounts. The increase in loan servicing fees was primarily due to an increase in commercial and mortgage loan late charges and a reduction in the amortization of mortgage servicing rights. The increase in debit card fees was primarily due to a 17% increase in issued Visa Debit cards and an increase in the usage from the existing customer base.

For the six months ended June 30, 2007, core noninterest income increased $72,000 or 6%, when compared with the six months ended June 30, 2006. The increase in core noninterest income for the six months ended June 30 2007, was primarily due to an increase in late fees on commercial and mortgage loans and a reduction in mortgage servicing rights amortization, combined with increased fees from the volume and usage of the Bank's Visa Debit card and an increase in the value of bank owned life insurance. These increases were offset by a reduction in service charges on deposit accounts attributable to decreased utilization of the extended overdraft program during the first quarter of 2007.

NONINTEREST EXPENSE

The following table sets forth certain information on noninterest expense for the quarters indicated:

	FOR THE THREE MONTHS ENDED JUNE 30,			
(DOLLARS IN THOUSANDS)	2007	2006	$CHANGE	% CHANGE
Salaries and employee benefits	$1,274	$1,183	$ 91	7.7%
Building occupancy	312	306	6	2.0%
Data processing	352	306	46	15.0%
Professional and other services	226	116	110	94.8%
Amortization of intangible assets	55	55	-	0.0%
Other expenses	308	344	(36)	-10.5%
TOTAL NONINTEREST EXPENSES	$2,527	$2,310	$ 217	9.4%

	FOR THE SIX MONTHS ENDED JUNE 30,			
(DOLLARS IN THOUSANDS)	2007	2006	$CHANGE	% CHANGE
Salaries and employee benefits	$2,501	$2,458	$ 43	1.7%
Building occupancy	630	622	8	1.3%
Data processing	694	630	64	10.2%
Professional and other services	463	231	232	100.4%
Amortization of intangible assets	111	111	-	0.0%
Other expenses	586	669	(83)	-12.4%
TOTAL NONINTEREST EXPENSES	$4,985	$4,721	$ 264	5.6%

Total noninterest expense increased for the three and six months ended June 30, 2007 when compared to the same periods for 2006. The increase in professional and other services for the three and six month periods was primarily due to consulting costs associated with preparing for, and implementing the enhanced internal controls of Section 404 of the Sarbanes Oxley Act and ensuring compliance with Bank Secrecy Act/Anti-Money Laundering regulations. Additionally, a direct mailing campaign aimed at attracting new deposit customers continued through the second quarter of 2007. The increase in salaries and employee benefits for the three and six months periods primarily resulted from increased commissions and incentives paid, combined with normal merit based salary increases. Data processing expenses for the three and six month periods increased due to volume related Internet banking costs and customer check processing, ATM processing charges and maintenance charges. These increases were offset by a decrease in other expenses for both periods primarily due to a reduction in costs associated with foreclosed real estate properties as the number of properties decreased to 7 from 13 in the comparable quarter of 2006. Additionally, audit and exam expenses and travel and training expenses were lower when compared to the first two quarters of 2006.

INCOME TAX EXPENSE

Income taxes decreased $34,000 for the quarter ended June 30, 2007 as compared to the same period in 2006. The decrease in income tax expense reflected lower pre-tax income during the comparable quarters. For the six months ended June 30, 2007, income tax expense decreased $32,000. The effective tax rate was 18.7% and 16.6% for the six months ended June 30, 2007 and June 30, 2006, respectively. The Company continues to strive to reduce its tax rate from the statutory rate primarily through the ownership of tax-exempt investment securities, bank owned life insurance and other tax savings strategies. Enactment of proposed state tax legislation regarding Real Estate Investment Trusts would increase the state tax rate for the Company.

CHANGES IN FINANCIAL CONDITION

ASSETS

Total assets increased approximately $3.2 million, or 1%, to $304.6 million at June 30, 2007, from $301.4 million at December 31, 2006. The increase in total assets was primarily the result of an increase in investment securities of $7.0 million, or 11%, and an increase of $2.5 million, or 1%, in loans receivable, offset by a reduction in interest earning deposits of $6.3 million, or 95%. The growth in investment securities was a result of securities purchases during January and February 2007 in order to obtain the required collateral for increased municipal deposit levels. The reduction in interest earning deposits was primarily due to excess liquidity being utilized to pay off maturing long-term advances.

At June 30, 2007, the securities balance included a net unrealized loss on available for sale securities of $1.7 million, versus a net unrealized loss of $1.4 million at December 31, 2006. These unrealized losses relate principally to changes in interest rates subsequent to the acquisition of specific securities. None of the securities in this category had an unrealized loss that exceeded 8% of book value. The Company has the intent and ability to hold the individual securities to maturity or market price recovery.

Management has reviewed its loan and mortgage-backed securities portfolios and determined that no exposure exists to sub-prime or other high-risk residential mortgages. The Company is not in the practice of investing in, or originating these types of investments or loans.

LIABILITIES

Total liabilities increased $3.3 million, or 1%, to $283.8 million at June 30, 2007 from $280.5 million at December 31, 2006. Deposits increases of $9.2 million, or 4%, were offset by a net reduction in borrowed funds of $6.0 million as lower cost deposit funds were used to reduce higher cost advances from the Federal Home Loan Bank New York.

LOAN AND ASSET QUALITY AND ALLOWANCE FOR LOAN LOSSES

The following table represents information concerning the aggregate amount of nonperforming assets:

(DOLLARS IN THOUSANDS)	JUNE 30, 2007	DECEMBER 31, 2006	JUNE 30, 2006
Nonaccrual loans:			
Commercial real estate and commercial	$ 502	$ 481	$ 376
Consumer	74	125	78
Residential real estate mortgage	689	566	964
Total nonaccrual loans	1,265	1,172	1,418
Total non-performing loans	1,265	1,172	1,418
Foreclosed real estate	449	471	887
Total non-performing assets	$1,714	$1,643	$2,305
Non-performing loans to total loans	0.61%	0.57%	0.73%
Non-performing assets to total assets	0.56%	0.54%	0.78%

Total nonperforming loans increased 8% at June 30, 2007 when compared to December 31, 2006. Management believes that adequate reserves exist for any potential losses that may occur from the remediation process.

The allowance for loan losses at June 30, 2007 and December 31, 2006 was $1.6 million and $1.5 million, or 0.76% and 0.74% of period end loans, respectively.

CAPITAL

Shareholders' equity at June 30, 2007 was $20.8 million as compared to $20.9 million at December 31, 2006. The Company added $331,000 to retained earnings through net income, which was offset by cash dividends returned to its shareholders of $350,000. Additional paid in capital increased $113,000 due to the exercise of stock options during the first quarter of 2007. The Company's mutual holding company parent, Pathfinder Bancorp, M.H.C, waived the dividend for the quarter ended June 30, 2007, payable in July 2007.

Risk-based capital provides the basis for which all banks are evaluated in terms of capital adequacy. Capital adequacy is evaluated primarily by the use of ratios which measure capital against total assets, as well as against total assets that are weighted based on defined risk characteristics. The Company's goal is to maintain a strong capital position, consistent with the risk profile of its subsidiary banks that supports growth and expansion activities while at the same time exceeding regulatory standards. At June 30, 2007, Pathfinder Bank exceeded all regulatory required minimum capital ratios and met the regulatory definition of a "well-capitalized" institution, i.e. a leverage capital ratio exceeding 5%, a Tier 1 risk-based capital ratio exceeding 6% and a total risk-based capital ratio exceeding 10%.

LIQUIDITY

Liquidity management involves the Company's ability to generate cash or otherwise obtain funds at reasonable rates to support asset growth, meet deposit withdrawals, maintain reserve requirements, and otherwise operate the Company on an ongoing basis. The Company's primary sources of funds are deposits, borrowed funds, amortization and prepayment of loans and maturities of investment securities and other short-term investments, and earnings and funds provided from operations. 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-earning and other assets, which provide liquidity to meet lending requirements.
The Company's liquidity has been enhanced by its membership in the Federal Home Loan Bank of New York, whose competitive advance programs and lines of credit provide the Company with a safe, reliable and convenient source of funds. A significant decrease in deposits in the future could result in the Company having to seek other sources of funds for liquidity purposes. Such sources could include, but are not limited to, additional borrowings, trust preferred security offerings, brokered deposits, negotiated time deposits, the sale of "available-for-sale" investment securities, the sale of securitized loans, or the sale of whole loans. Such actions could result in higher interest expense costs and/or losses on the sale of securities or loans.

The Company has a number of existing credit facilities available to it. The combined aggregate amount of credit available in connection with its existing facilities is approximately $56.6 million at June 30, 2007.

The Asset Liability Management Committees of the Company are responsible for implementing the policies and guidelines for the maintenance of prudent levels of liquidity. As of June 30, 2007, management reported to the Board of Directors that the Company is in compliance with its liquidity policy guidelines.

ITEM 3 - CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders was held on April 25, 2007. The following are the items voted on and the results of the shareholder voting:

1. The election of Janette Resnick, Corte J. Spencer and Steve W. Thomas to serve as directors of the Company, each for a term of three years or until his or her successor has been elected and qualified.

Name	For	Withheld
Janette Resnick	2,381,148	89,651
Corte J. Spencer	2,359,350	111,449
Steven W. Thomas	2,380,398	90,401

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

Name	Term Expires
Thomas W. Schneider	2008
Chris R. Burritt	2008
Bruce E. Manwaring	2009
L. William Nelson, Jr.	2009
George P. Joyce	2009
Lloyd "Buddy" Stemple	2009

2. The ratification of the appointment of Beard Miller Company LLP as auditors for the Company for the year ending December 31, 2007.

	For	Against	Abstain
Number of Votes	2,469,314	1,425	60

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS

Exhibit No.	Description
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
32.1	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer

SIGNATURES

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

PATHFINDER BANCORP, INC.
(Small business issuer)

August 14, 2007	/s/ Thomas W. Schneider
Date:	Thomas W. Schneider President, Chief Executive Officer
August 14, 2007	/s/ James A. Dowd
Date:	James A. Dowd Senior Vice President, Chief Financial Officer

EXHIBIT 31.1

Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer
Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas W. Schneider, certify that:

1. I have reviewed the June 30, 2007 quarterly report on Form 10-QSB of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement

of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

August 14, 2007	/s/ Thomas W. Schneider
Date	Thomas W. Schneider President and Chief Executive Officer

EXHIBIT 31.2

Rule 13a-14(a) / 15d-14(a) Certification of the Chief Financial Officer
Certification of Chief Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James A. Dowd, certify that:

1. I have reviewed the June 30, 2007 quarterly report on Form 10-QSB of Pathfinder Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

August 14, 2007 /s/ James A. Dowd
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Date James A. Dowd
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Section 1350 Certification of the Chief Executive and Chief Financial Officer

Certification pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Thomas W. Schneider, President and Chief Executive Officer, and James A. Dowd, Senior Vice President and 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 of the Company on Form 10-QSB for the quarter ended June 30, 2007 and that to the best of his knowledge:

1. the report fully complies with the requirements of Sections 13(a) 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 of the Company.

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

August 14, 2007 /s/ Thomas W. Schneider
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Date Thomas W. Schneider
President and Chief Executive Officer

August 14, 2007 /s/ James A. Dowd
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Date James A. Dowd
Senior Vice President and Chief Financial Officer