

ARROW FINANCIAL CORP
Form 10-Q
August 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

or

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

Commission File Number: 0-12507

ARROW FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New York

22-2448962

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(State or other jurisdiction of

(IRS Employer Identification

incorporation or organization)

Number)

250 GLEN STREET, GLENS FALLS, NEW YORK 12801

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (518) 745-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to

file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding as of July 31, 2008

Common Stock, par value \$1.00 per share

10,489,543

ARROW FINANCIAL CORPORATION

FORM 10-Q

June 30, 2008

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ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands) (Unaudited)

	June 30,	December 31,
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and Due from Banks	\$ 39,013	\$ 35,289
Federal Funds Sold	<u>---</u>	<u>16,000</u>
Cash and Cash Equivalents	<u>39,013</u>	<u>51,289</u>
Securities Available-for-Sale	372,843	338,070
Securities Held-to-Maturity (Approximate Fair Value of \$110,825 at June 30, 2008 and \$114,977 at December 31, 2007)	111,289	114,611
Loans	1,062,999	1,038,844
Allowance for Loan Losses	<u>(12,725)</u>	<u>(12,401)</u>
Net Loans	1,050,274	1,026,443
Premises and Equipment, Net	16,492	16,728
Other Real Estate and Repossessed Assets, Net	295	152
Goodwill	14,726	14,614
Other Intangible Assets, Net	1,769	1,976
Other Assets	<u>24,280</u>	<u>20,963</u>
Total Assets	<u>\$1,630,981</u>	<u>\$1,584,846</u>
LIABILITIES		
Deposits:		
Demand	\$ 194,188	\$ 184,273
Regular Savings, N.O.W. & Money Market Deposit Accounts	637,270	590,383
Time Deposits of \$100,000 or More	177,472	180,334
Other Time Deposits	<u>240,122</u>	<u>249,210</u>
Total Deposits	<u>1,249,052</u>	<u>1,204,200</u>
Short-Term Borrowings:		
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	55,181	52,630
Other Short-Term Borrowings	576	1,089
Federal Home Loan Bank Advances	160,000	160,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000
Other Liabilities	<u>22,092</u>	<u>24,671</u>
Total Liabilities	<u>1,506,901</u>	<u>1,462,590</u>
SHAREHOLDERS EQUITY		

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Preferred Stock, \$5 Par Value; 1,000,000 Shares Authorized	---	---
Common Stock, \$1 Par Value; 20,000,000 Shares Authorized		
(14,728,543 Shares Issued at June 30, 2008 and December 31, 2007)	14,729	14,729
Surplus	162,085	161,476
Retained Earnings	20,675	15,347
Unallocated ESOP Shares (122,207 Shares at June 30, 2008		
and 109,885 Shares at December 31, 2007)	(2,572)	(2,042)
Accumulated Other Comprehensive Loss	(5,936)	(4,890)
Treasury Stock, at Cost (4,090,739 Shares at June 30,		
2008 and 3,991,399 Shares at December 31, 2007)	<u>(64,901)</u>	<u>(62,364)</u>
Total Shareholders Equity	<u>124,080</u>	<u>122,256</u>
Total Liabilities and Shareholders Equity	<u>\$1,630,981</u>	<u>\$1,584,846</u>

See Notes to Unaudited Consolidated Interim Financial Statements.

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)(Unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
INTEREST AND DIVIDEND INCOME				
Interest and Fees on Loans	\$16,490	\$16,359	\$33,197	\$32,316
Interest-bearing Balances	---	---	7	---
Interest on Federal Funds Sold	94	240	414	491
Interest and Dividends on Securities Available-for-Sale	4,454	3,771	8,415	7,345
Interest on Securities Held-to-Maturity	<u>1,077</u>	<u>1,039</u>	<u>2,164</u>	<u>2,073</u>
Total Interest and Dividend Income	<u>22,115</u>	<u>21,409</u>	<u>44,197</u>	<u>42,225</u>
INTEREST EXPENSE				
Interest on Deposits:				
Time Deposits of \$100,000 or More	1,213	2,106	3,104	4,266
Other Deposits	4,203	5,578	9,169	10,792
Interest on Short-Term Borrowings:				
Federal Funds Purchased and Securities Sold				
Under Agreements to Repurchase	192	348	442	669
Other Short-Term Borrowings	2	8	7	12
Federal Home Loan Bank Advances	1,858	1,593	3,703	3,160
Junior Subordinated Obligations Issued to Unconsolidated				
Subsidiary Trusts	<u>283</u>	<u>351</u>	<u>621</u>	<u>699</u>
Total Interest Expense	<u>7,751</u>	<u>9,984</u>	<u>17,046</u>	<u>19,598</u>
NET INTEREST INCOME	14,364	11,425	27,151	22,627
Provision for Loan Losses	<u>248</u>	<u>92</u>	<u>538</u>	<u>186</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>14,116</u>	<u>11,333</u>	<u>26,613</u>	<u>22,441</u>
NONINTEREST INCOME				
Income from Fiduciary Activities	1,396	1,419	2,835	2,872
Fees for Other Services to Customers	2,195	2,062	4,076	3,944
Net Losses on Securities Transactions	(35)	---	(35)	---
Gain on Visa Stock Redemption	---	---	749	---
Gain on Sale of Premises	---	---	115	---

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Insurance Commissions	499	462	1,047	963
Other Operating Income	<u>126</u>	<u>228</u>	<u>241</u>	<u>404</u>
Total Noninterest Income	<u>4,181</u>	<u>4,171</u>	<u>9,028</u>	<u>8,183</u>
NONINTEREST EXPENSE				
Salaries and Employee Benefits	5,996	5,439	12,028	10,756
Occupancy Expense of Premises, Net	882	831	1,775	1,643
Furniture and Equipment Expense	765	786	1,565	1,541
Other Operating Expense	<u>2,766</u>	<u>2,517</u>	<u>5,220</u>	<u>4,994</u>
Total Noninterest Expense	<u>10,409</u>	<u>9,573</u>	<u>20,588</u>	<u>18,934</u>
INCOME BEFORE PROVISION FOR INCOME TAXES				
	7,888	5,931	15,053	11,690
Provision for Income Taxes	<u>2,452</u>	<u>1,721</u>	<u>4,636</u>	<u>3,349</u>
NET INCOME	<u>\$ 5,436</u>	<u>\$ 4,210</u>	<u>\$10,417</u>	<u>\$ 8,341</u>
Average Shares Outstanding:				
Basic	10,593	10,732	10,619	10,806
Diluted	10,650	10,804	10,673	10,885
Earnings Per Common Share:				
Basic	\$.51	\$.39	\$.98	\$.77
Diluted	.51	.39	.98	.77

Share and Per Share amounts have been restated for the September 2007 3% stock dividend.

See Notes to Unaudited Consolidated Interim Financial Statements.

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(In Thousands, Except Share and Per Share Amounts) (Unaudited)

	Shares	Common	Retained	ESOP	Unallo- cated	Accumulated Other Com- prehensive	Treasury	Total
	<u>Issued</u>	<u>Stock</u>	<u>Surplus</u>	<u>Earnings</u>	<u>Shares</u>	<u>Loss</u>	<u>Stock</u>	<u>Total</u>
Balance at December 31, 2007	14,728,543	\$14,729	\$161,476	\$15,347	\$(2,042)	\$ (4,890)	\$(62,364)	\$122,256
Comprehensive Income, Net of Tax:								
Net Income	---	---	---	10,417	---	---	---	10,417
Amortization of Actuarial Loss								
(Pre-tax \$222)	---	---	---	---	---	134	---	134
Amortization of Prior Service								
Credit (Pre-tax \$106)	---	---	---	---	---	(64)	---	(64)
Net Unrealized Securities Holding								
Losses Arising During the Period,								
Net of Tax (Pre-tax \$1,848)	---	---	---	---	---	(1,116)	---	<u>(1,116)</u>
Comprehensive Income								<u>9,371</u>
Cash Dividends Paid,								
\$.48 per Share	---	---	---	(5,089)	---	---	---	(5,089)
Stock Options Exercised								
(11,939 Shares)	---	---	60	---	---	---	100	160
Shares Issued Under the Directors	---	---	39	---	---	---	23	62

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Stock Plan (2,753 Shares)								
Shares Issued Under the Employee								
Stock Purchase Plan (10,358 Shares)	---	---	133	---	---	---	87	220
Stock-Based Compensation								
Expense	---	---	57	---	---	---	---	57
Tax Benefit for Disposition of								
Stock Options	---	---	29	---	---	---	---	29
Acquisition by ESOP of Arrow Stock								
(43,262 Shares)	---	---	---	---	(1,000)	---	---	(1,000)
Allocation of ESOP Stock								
(30,940 Shares)	---	---	222	---	470	---	---	692
Acquisition of Subsidiary								
(5,129 Shares)	---	---	69	---	---	---	43	112
Purchase of Treasury Stock								
(129,519 Shares)	---	---	---	---	---	---	(2,790)	(2,790)
Balance at June 30, 2008	<u>14,728,543</u>	<u>\$14,729</u>	<u>\$162,085</u>	<u>\$20,675</u>	<u>\$(2,572)</u>	<u>\$(5,936)</u>	<u>\$(64,901)</u>	<u>\$124,080</u>

See Notes to Unaudited Consolidated Interim Financial Statements.

ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(In Thousands, Except Share and Per Share Amounts) (Unaudited)

	Shares Common		Surplus	Retained Earnings	Unallo- cated ESOP Shares	Accumulated Other Com- prehensive Loss	Treasury Stock	Total
	Issued	Stock						
Balance at December 31, 2006	14,299,556	\$14,300	\$150,919	\$17,619	\$ (862)	\$ (7,965)	\$(55,881)	\$118,130
Comprehensive Income, Net of Tax:								
Net Income	---	---	---	8,341	---	---	---	8,341
Net Change in Income Tax Rates	---	---	---	---	---	(34)	---	(34)
Amortization of Actuarial Loss (Pre-tax \$222)	---	---	---	---	---	134	---	134
Amortization of Prior Service Credit (Pre-tax \$121)	---	---	---	---	---	(73)	---	(73)
Net Unrealized Securities Holding Losses Arising During the Period, Net of Tax (Pre-tax \$1,202)	---	---	---	---	---	(726)	---	<u>(726)</u>
Comprehensive Income								<u>7,642</u>
Cash Dividends Paid, \$.466 per Share	---	---	---	(5,016)	---	---	---	(5,016)
Stock Options Exercised	---	---	192	---	---	---	175	367

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(24,107 Shares)								
Shares Issued Under the Directors								
Stock Plan (3,392 Shares)	---	---	48	---	---	---	25	73
Shares Issued Under the Employee								
Stock Purchase Plan (11,739 Shares)	---	---	165	---	---	---	85	250
Stock-Based Compensation								
Expense	---	---	33	---	---	---	---	33
Tax Benefit for Disposition of								
Stock Options	---	---	37	---	---	---	---	37
Acquisition by ESOP of Arrow Stock								
(69,206 Shares)	---	---	---	---	(1,500)	---	---	(1,500)
Allocation of ESOP Stock								
(24,017 Shares)	---	---	215	---	320	---	---	535
Acquisition of Subsidiary								
(4,447 Shares)	---	---	79	---	---	---	32	111
Purchase of Treasury Stock								
(214,395 Sha								