FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
SEC Accession No. 0000950152-02-004146

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FILER

FINGER LAKES BANCORP INC

CIK:**1109401**| IRS No.: **161594819**
Type: **10-Q** | Act: **34** | File No.: **000-31821** | Film No.: **02644976**
SIC: **6035** Savings institution, federally chartered

Mailing Address
470 EXHANGE STREET
GENEVA NY 14456

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3157893838

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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 000-31821

FINGER LAKES BANCORP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	16-1594819
(State or other jurisdiction of (Incorporation or organization)	(I.R.S. Employer Identification Number)
470 EXCHANGE STREET, GENEVA, NEW YORK	14456
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: (315) 789-3838

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No __

Number of shares of common stock outstanding as of March 31, 2002

COMMON STOCK, $.01 PAR VALUE	3,173,807
Class	Outstanding

FINGER LAKES BANCORP, INC.

Form 10-Q

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Item 1 - Financial Statements

FINGER LAKES BANCORP, INC.

Consolidated Statements of Financial Condition
(dollars in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

<S>	March 31, 2002 <C>	December 31, 2001 <C>
Assets		
Cash and due from banks	$ 4,880	3,875
Securities available for sale, at fair value	139,903	135,599
Securities held to maturity, fair value of $1,851 at March 31, 2002 and $1,855 at December 31, 2001	1,830	1,831
Loans	188,319	181,757
Less allowance for loan losses	1,641	1,534
Net loans	186,678	180,223
Accrued interest receivable	1,924	1,878
Federal Home Loan Bank Stock, at cost	4,065	4,327
Premises and equipment, net	4,085	4,134
Bank owned life insurance	8,548	8,432
Other assets	4,625	3,061
Total assets	$ 356,538	343,360

Liabilities and Stockholders' Equity

Liabilities:		
Deposits	$ 247,360	231,720
Advances from Federal Home Loan Bank	70,488	70,627
Other liabilities	3,675	4,262
Total liabilities	321,523	306,609
Stockholders' Equity:		
Preferred Stock; $.01 par value; authorized 1,000,000 shares; issued and outstanding-none	---	---
Common Stock, $.01 par value; 5,000,000 shares authorized; 3,451,257 shares issued	35	35
Additional paid-in capital	20,194	20,167
Retained earnings	20,227	19,779
Treasury stock - at cost; 277,450 and 107,800 shares at March 31, 2002 and December 31, 2001, respectively	(3,006)	(1,154)
Accumulated other comprehensive loss	(506)	(66)
Unearned compensation	(708)	(751)
Unallocated shares of ESOP	(1,221)	(1,259)
Total stockholders' equity	35,015	36,751
Total liabilities and stockholders' equity	$ 356,538	343,360

</TABLE>

See accompanying notes to consolidated financial statements

FINGER LAKES BANCORP, INC.

Consolidated Statements of Income
(in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 2002	2001
<S>	<C>	<C>
Interest income:		
Loans	$3,527	3,543
Securities	2,163	2,367
Other	--	9
	5,690	5,919
Interest expense:		
Deposits	1,918	2,779
Borrowings	995	962
	2,913	3,741
Net interest income	2,777	2,178
Provision for loan losses	140	60
Net interest income after provision for loan losses	2,637	2,118
Non interest income:		
Service charges and other fee		

income	423	333
Net gain on sale of securities	98	118
Increase in cash value of bank owned life insurance	116	76
Net gain on sale of loans	57	12
Other	3	4
	697	543
Non interest expenses:		
Salaries and employee benefits	1,219	1,042
Office occupancy and equipment	418	446
Professional fees	136	113
Marketing and advertising	124	69
Data processing	60	59
Other	463	427
	2,420	2,155
Income before income tax expense	914	506
Income tax expense	278	163
Net income	$ 636	343
Net income per common share - basic and diluted	$ 0.21	0.11

</TABLE>

See accompanying notes to consolidated financial statements.

FINGER LAKES BANCORP, INC.

Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 2002	2001
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 636	343
Adjustments to reconcile net income to net cash provided/(used) by operating activities:		
Depreciation and amortization	196	210
Amortization of fees, discounts and premiums	102	26
Provision for loan losses	140	60
Net gain on sale of securities available for sale	(98)	(118)
Net gain on sale of loans	(57)	(12)
Net gain from sale of real estate owned	(11)	(6)
Allocation of ESOP	65	31
Amortization of deferred stock compensation	43	--
Increase in cash value of BOLI	(116)	(77)
Proceeds from sale of loans held for sale	5,831	634
Loans originated for sale	(5,666)	(516)
(Increase)/decrease in accrued interest receivable	(46)	49
Increase in other assets	(1,327)	(46)
Decrease in other liabilities	(587)	(532)

Net cash provided by operating activities	895	46
Cash flows from investing activities:		
Proceeds from maturities of and principal collected on securities available for sale	10,142	2,398
Proceeds from sales of securities available for sale	26,075	32,892
Purchases of securities available for sale	(41,242)	(47,383)
Loans originated and purchased	(21,790)	(9,691)
Principal collected on loans	15,072	6,439
Purchase of bank owned life insurance	--	(3,000)
Proceeds from sale of real estate owned	67	56
Redemption of FHLB stock	612	--
Purchases of FHLB stock	(350)	(97)
Purchases of premises and equipment, net	(147)	(52)
Net cash used in investing activities	(11,561)	(18,438)

</TABLE>

(continued)

FINGER LAKES BANCORP, INC.

Consolidated Statements of Cash Flows, continued
(in thousands)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2002	2001
<S>	<C>	<C>
Cash flows from financing activities:		
Net increase in savings, demand and money market accounts	$ 6,553	1,275
Net increase in time deposits	9,087	5,905
Net increase in short term advances from FHLB	200	6,000
Long term advances from FHLB	--	5,123
Repayments of long term advances from FHLB	(339)	(264)
Purchase of treasury stock	(1,852)	--
Dividends on common stock	(188)	(207)
Net cash provided by financing activities	13,461	17,832
Net increase/(decrease) in cash and cash equivalents	1,005	(560)
Cash and cash equivalents at beginning of period	3,875	4,496
Cash and cash equivalents at end of period	$ 4,880	3,936
Supplemental disclosure of cash flow information: Cash paid during the period for:		
Interest	$ 2,889	3,700
Income taxes	53	3

</TABLE>

See accompanying notes to consolidated financial statements.

FINGER LAKES BANCORP, INC.
Consolidated Statement of Changes in Stockholders' Equity
Three months ended March 31, 2002
(dollars in thousands, except per share data)
(unaudited)

	Common Stock	Additional Paid - in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Unearned Compensation	Unallocated Shares of ESOP	Total
Balance at December 31, 2001	$ 35	20,167	19,779	(1,154)	(66)	(751)	(1,259)	36,751
Comprehensive income:								
Net income	--	--	636	--	--	--	--	636
Change in net unrealized gains/losses on securities available for sale, net of taxes	--	--	--	--	(440)	--	--	(440)
Total comprehensive income								196
Allocation of shares under ESOP	--	27	--	--	--	--	38	65
Purchase of treasury shares	--	--	--	(1,852)	--	--	--	(1,852)
Amortization of deferred stock compensation	--	--	--	--	--	43	--	43
Cash dividends declared, $.06 per share	(188)	--	--	--	--	--	--	(188)
Balance at March 31, 2002	$ 35	20,194	20,227	(3,006)	(506)	(708)	(1,221)	35,015

See accompanying notes to consolidated financial statements.

FINGER LAKES BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(1) ORGANIZATION

Finger Lakes Bancorp, Inc. (the Bancorp), through its wholly-owned subsidiary Savings Bank of the Finger Lakes, FSB (the Bank), provides financial services to individuals and businesses primarily in the Finger Lakes region of Upstate New York. The Bancorp and Bank, which are subject to regulation by certain federal agencies including the Office of Thrift Supervision (OTS), are referred to herein as the Company.

(2) BASIS OF PRESENTATION

The accompanying unaudited financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. However, in the opinion of management, all adjustments consisting of only normal recurring adjustments or accruals which are necessary for a fair presentation of the financial statements have been made at and for the three months ended March 31, 2002 and 2001. The results of operations for the three month period ended March 31, 2002 are not necessarily indicative of the results which may be expected for an entire fiscal year or other interim periods.

The unaudited consolidated financial statements should be read in conjunction with the Company's 2001 Annual Report on Form 10-K. Amounts in the prior period's consolidated financial statements are reclassified when necessary to conform to the current period's presentation. All intercompany accounts and transactions have been eliminated in consolidation.

(3) NET INCOME PER SHARE

Basic net income per common share for the three-month periods ended March 31, 2002 and 2001 was computed by dividing net income by the weighted average number of total common shares outstanding during the period, excluding unallocated ESOP shares and deferred stock compensation shares. Diluted net income per common share reflects the effects of incremental common shares (computed using the treasury stock method) that would be issuable upon exercise of dilutive stock options and unearned stock compensation.

The following is a summary of the net income per share calculations (in thousands, except net income per share):

	For the three months Ended March 31, 2002	
	Basic	Diluted
Net income	$ 636	636
Weighted average shares	3,014	3,014
Common stock equivalents	---	79
Total weighted average shares	3,014	3,093
Net income per share	$ 0.21	0.21

	For the three months Ended March 31, 2001	
	Basic	Diluted
Net income	$ 343	343
Weighted average shares	3,241	3,241
Common stock equivalents	---	4
Total weighted average shares	3,241	3,245
Net income per share	$ 0.11	0.11

(4) DIVIDENDS

The Company declared a regular cash dividend of $.06 per share for the quarter ended March 31, 2002 on April 23, 2002, payable May 21, 2002 to stockholders of record May 7, 2002.

(5) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 requires acquired intangible assets (other than goodwill) to be amortized over their useful economic life, while goodwill and any acquired intangible assets with an indefinite useful economic life would not be amortized, but would be reviewed for impairment on an annual basis based on guidelines specified SFAS No. 142.

The adoption of SFAS Nos. 141 and 142 did not materially affect the Company's financial condition and results of operations. The Company adopted SFAS No. 141 on July 1, 2001 and SFAS No. 142 on January 1, 2002.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2002 AND DECEMBER 31, 2001

Total assets as of March 31, 2002 were $356.5 million, an increase of $13.2 million or 3.8% from December 31, 2001. The increase was due primarily to a $6.6 million or 3.6% increase in total loans, and an increase of $4.3 million or 3.2% in securities available for sale. With continued emphasis on complementing our traditional mortgage lending with increased commercial lending, commercial real estate and business loans increased by $6.6 million, residential mortgage loans decreased by $2.1 million, home equity loans increased by $1.4 million, and other consumer loans increased by $649,000. The increase in securities available for sale is a result of purchases of $41.2 million, partially offset by amortizations and prepayments of $10.1 million and sales of $26.1 million. Net unrealized losses on securities available for sale amounted to $506,000, net of deferred taxes, representing an after-tax net decrease of $440,000 in the market value of securities available for sale since year end as interest rates increased by approximately 50 basis points.

The growth in assets during the first three months of 2002 was funded by a $15.6 million or 6.7% increase in total deposits. Savings deposits increased by $3.0 million or 5.0% and demand deposits increased $3.6 million or 12.4%, while certificate of deposits increased $9.1 million or 6.3%. Advances from the Federal Home Loan Bank of New York ("FHLB") remained flat at $70.5 million, as compared to $70.6 million at year end.

Stockholders' equity totaled $35.0 million as of March 31, 2002, a decrease of $1.7 million or 4.7% from December 31, 2001. The decrease in stockholders' equity resulted from net income of $636,000, a decrease of $440,000 in the market value of securities available for sale, net of related deferred income taxes, dividend distributions of $188,000, and treasury share purchases in the amount of $1.9 million, at an average cost of $10.91.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

GENERAL
Net income for the quarter ended March 31, 2002 amounted to $636,000 or $0.21 per share, compared to net income of $343,000, or $0.11 per share for the quarter ended March 31, 2001. The increase in net income is primarily attributable to an increase of $599,000 in net interest income, as well as an increase in noninterest income of $154,000. This was partially offset by an increase of $265,000 in noninterest expenses, an increase in provision for loan losses of $80,000, and an increase of $115,000 in income tax expense.

NET INTEREST INCOME
Net interest income is determined by our interest rate spread (i.e., the difference between yields earned on our interest-earning assets and rates paid on our interest-bearing liabilities) and the relative amounts of our interest-earning assets and interest-bearing liabilities. Net interest income amounted to $2.8 million for the three month period ended March 31, 2002, an increase of $599,000 from the same period last year. The average interest rate spread for the three-month period ended March 31, 2002 was 3.18% versus 2.39% during the same period in 2001. The average yield on interest-earning assets

decreased 53 basis points from 7.53% to 7.00%, while the average cost of interest-bearing liabilities decreased 132 basis points from 5.14% to 3.82%.

INTEREST INCOME

Total interest income for the three-month period ended March 31, 2002 amounted to $5.7 million, a decrease of $229,000 from the same period in 2001. The average yield on earning assets decreased to

7.00% during the three months ended March 31, 2002 compared to 7.53% in the same period of 2001. Interest income on loans for the three months ended March 31, 2002 amounted to $3.5 million, relatively flat from the same period in 2001. Total loans increased by $9.6 million to an average of $184.3 million for the three months ended March 31, 2002, offset by a decrease in the average yield to 7.76% from 8.23% during the same period last year. Interest income on securities for the three months ended March 31, 2002 amounted to $2.2 million, down from $2.4 million from the same period last year. Changes in interest income on securities consisted of an increase in the average outstanding securities balance (at amortized cost) of $1.6 million to $145.2 million, offset by a decrease in the yield on the portfolio, as the average yield decreased 64 basis points to 6.04%.

INTEREST EXPENSE

Total interest expense for the three months ended March 31, 2002 was $2.9 million, a decrease of $828,000 from the same period in 2001. During the first quarter of 2002, interest expense on deposits amounted to $1.9 million while interest expense on borrowed funds amounted to $1.0 million. Interest expense on deposits decreased $861,000 or 31.0% as average deposits increased $6.0 million to $236.7 million, while the average cost of deposits decreased 160 basis points to 3.29%. The average cost of borrowings decreased 53 basis points to 5.54% from 6.07% a year ago, while the average outstanding borrowings increased $8.5 million to $72.9 million.

PROVISION FOR LOAN LOSSES

The provision for loan losses amounted to $140,000 for the three months ended March 31, 2002, an increase of $80,000 from the same period last year. Management reviews the adequacy of the allowance for loan losses quarterly through an asset classification and review process and an analysis of the level of loan delinquencies and general market and economic conditions. The allowance for loan losses amounted to $1.6 million as of March 31, 2002 or 0.87% of total loans outstanding and 391% of non-performing loans. Non-performing loans increased from $362,000 as of December 31, 2001 to $420,000 as of March 31, 2002. This increase primarily relates a general increase in consumer loan delinquencies. The ratio of non-performing assets to total assets was 0.14% at March 31, 2002 as compared to 0.20% at December 31, 2001. Net charge-offs during the first quarter of 2002 were $33,000 or 0.02% of total average loans outstanding, as compared to $18,000 or 0.01% of total average loans outstanding for the same period last year.

NONINTEREST INCOME

Noninterest income, consisting primarily of service charges on deposit accounts, loan servicing fees, income from the sale of annuities and mutual funds, increases in the value of bank owned life insurance, and gains and losses on loans and securities sold, was $697,000 for the three months ended March 31, 2002, an increase of $154,000 or 28.4% compared to the first quarter of 2001. Service charges and other fee income was $423,000 for the three months ended March 31, 2002, an increase of $90,000 over the same period in 2001. This improvement is primarily attributable to an increase of $58,000 in service charges on deposit accounts and $50,000 in loan prepayment penalties. An increase of $45,000 in net gains from the sale of loans reflects higher volumes of loan sales, as loan sales in the first quarter of 2002 were $5.8 million as compared to $516,000 for the same period last year. Other noninterest income was $119,000 for the three months ended March 31, 2002 as compared to $80,000 during the same period last year. This increase is attributable to an increase of $39,000 in income from bank owned life insurance, as the Company purchased additional insurance in March 2001.

NONINTEREST EXPENSE

Noninterest expense amounted to $2.4 million for the three months ended March 31, 2002, an increase of $265,000 or 12.3% from the same period last year. An increase of $177,000 in salaries and employee benefits expense was primarily the result of annual salary increases and the cost of stock-based benefit plans. A decrease of $28,000 in office occupancy and equipment expense was primarily the result of lower depreciation expense, due to a fully depreciated branch and related equipment in our Ithaca market. Professional fees increased $23,000 or 20.4% from the same period last year, due primarily to increases in legal and accounting fees. Marketing expenses increased $55,000 during the first quarter of 2002 to $124,000, primarily due to expenses relating to a certificate of deposit promotion targeted at longer term maturies, as well as a renewed home equity loan campaign. Other noninterest expense, which in part includes postage, office supplies, telephone charges, director's fees, insurance, and third party check processing, increased $36,000 or 8.4% from the same period last year.

INCOME TAXES

Income tax expense for the three months ended March 31, 2002 was $278,000 on income before tax of $914,000, reflecting an effective tax rate of 30.4%. For the same period in 2001, the effective rate was 32.2%. The decrease in our effective tax rate is the result of our purchase of bank owned life insurance, which is a tax-advantaged means of financing employee benefits, the formation of a real estate investment trust in September 2001, as well as our investment in municipal bonds, which totaled $2.8 million at March 31, 2002.

ITEM 3 - QUANTITATIVE & QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and interest rates. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. Although the Company manages other risks, as in credit and liquidity risk, in the normal course of its business, management considers interest rate risk to be its most significant market risk and could potentially have the largest material effect on the Company's financial condition and results of operations. The Company does not currently have a trading portfolio nor does it use derivatives to manage market and interest rate risk.

The Company's interest rate risk management is the responsibility of the Asset/Liability Management Committee (ALCO), which reports to the Board of Directors. The committee, comprised of senior management, has developed policies to measure, manage, and monitor interest rate risk. Interest rate risk arises from a variety of factors, including differences in the timing between the contractual maturity or repricing of the Company's assets and liabilities. For example, the Company's net interest income is affected by changes in the level of market interest rates as the repricing characteristics of its loans and other assets do not necessarily match those of its deposits, borrowings and capital.

The OTS requires the Company to measure interest rate risk by computing estimated changes in the net portfolio value ("NPV") of cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. These computations estimate the effect on NPV of sudden and sustained 100 to 300 basis point increases and decreases in market interest rates. The Company's board of directors has adopted an interest rate risk policy which establishes minimum NPV ratios (i.e. the ratio of NPV to the present value of assets) in the event of 100, 200 and 300 basis point increases and decreases in market interest rates. The following table sets forth certain calculations, based on information provided to the Company by the OTS, with respect to the sensitivity of NPV to changes in market interest rates at December 31, 2001 (date of latest available data):

<TABLE>
<CAPTION>

BASIS POINT CHANGE IN RATES	ESTIMATED NET PORTFOLIO VALUE $ AMOUNT (Dollars in Thousands)	$ CHANGE	% CHANGE	NPV AS % OF PV OF ASSETS NPV RATIO	BASIS POINTS CHANGE
<S>	<C>	<C>	<C>	<C>	<C>
+300	$ 16,156	(20,726)	(56)%	4.95%	(542)bp
+200	22,981	(13,901)	(38)	6.85	(352)bp
+100	30,435	(6,447)	(17)	8.80	(157)bp
-	36,882	-	-	10.37	-
-100	39,313	2,431	7	10.87	50 bp

</TABLE>

As shown by the table, increases in interest rates are estimated to significantly decrease our NPV, while a decrease of 100 basis points in interest rates is estimated to result in a much smaller net change in our NPV. The table suggests that in the event of a 200 basis point increase in interest rates, we would experience a decrease in NPV as a percentage of assets to 6.85% from 10.37%. Net portfolio values in a falling rate environment of 200 and 300 basis points or more have not been calculated, due to the current interest rate environment of historically low rates.

The Board of Directors is responsible for reviewing asset liability management policies. On at least a quarterly basis, the Board reviews interest rate risk and trends, as well as liquidity and capital ratios and requirements. Management is responsible for administering the policies and determinations of the Board of Directors with respect to our asset and liability goals and strategies.

PART II: OTHER INFORMATION

Item 1 Legal Proceedings

None

Item 2 Changes in Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

None

Item 5 Other Information

None

Item 6 Exhibits and Reports on Form 8-K

(a) See Index to Exhibits

(b) Reports on Form 8-K
None

SIGNATURES

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

Date: May 13, 2002 By: /s/G. Thomas Bowers

G. Thomas Bowers
Chairman, President and Chief Executive Officer

Date: May 13, 2002 By: /s/Terry L. Hammond

Terry L. Hammond
Executive Vice President and Chief Financial Officer