

ARROW FINANCIAL CORP  
Form 10-Q  
August 08, 2007

**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, 2007**

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

(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

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, 2007

Common Stock, par value \$1.00 per share

10,308,086

**ARROW FINANCIAL CORPORATION**

FORM 10-Q

June 30, 2007

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## ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands) (Unaudited)

	June 30,	December 31,
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and Due from Banks	\$ 33,403	\$ 34,995
Federal Funds Sold	<u>2,000</u>	<u>9,000</u>
Cash and Cash Equivalents	<u>35,403</u>	<u>43,995</u>
Securities Available-for-Sale	333,015	315,886
Securities Held-to-Maturity (Approximate Fair Value of \$109,383 at June 30, 2007 and \$108,270 at December 31, 2006)	111,683	108,498
Loans	1,017,989	1,008,999
Allowance for Loan Losses	<u>(12,315)</u>	<u>(12,278)</u>
Net Loans	1,005,674	996,721
Premises and Equipment, Net	16,000	15,608
Other Real Estate and Repossessed Assets, Net	262	392
Goodwill	14,614	14,503
Other Intangible Assets, Net	2,194	2,422
Other Assets	<u>23,088</u>	<u>22,192</u>
Total Assets	<u>\$1,541,933</u>	<u>\$1,520,217</u>
<b>LIABILITIES</b>		
Deposits:		
Demand	\$ 187,306	\$ 183,492
Regular Savings, N.O.W. & Money Market Deposit Accounts	563,724	559,132
Time Deposits of \$100,000 or More	191,809	187,777
Other Time Deposits	<u>262,328</u>	<u>255,996</u>
Total Deposits	<u>1,205,167</u>	<u>1,186,397</u>
Short-Term Borrowings:		
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	48,510	47,566
Other Short-Term Borrowings	654	758
Federal Home Loan Bank Advances	130,000	125,000
Junior Subordinated Obligations Issued to Unconsolidated Subsidiary Trusts	20,000	20,000

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Other Liabilities	<u>21,691</u>	<u>22,366</u>
Total Liabilities	<u>1,426,022</u>	<u>1,402,087</u>
<b>SHAREHOLDERS EQUITY</b>		
Preferred Stock, \$5 Par Value; 1,000,000 Shares Authorized	---	---
Common Stock, \$1 Par Value; 20,000,000 Shares Authorized		
(14,299,556 Shares Issued at June 30, 2007 and December 31, 2006)	14,300	14,300
Surplus	151,688	150,919
Undivided Profits	20,944	17,619
Unallocated ESOP Shares (106,684 Shares at June 30, 2007		
and 62,811 Shares at December 31, 2006)	(2,042)	(862)
Accumulated Other Comprehensive Loss	(8,664)	(7,965)
Treasury Stock, at Cost (3,815,541 Shares at June 30,		
2007 and 3,649,803 Shares at December 31, 2006)	<u>(60,315)</u>	<u>(55,881)</u>
Total Shareholders Equity	<u>115,911</u>	<u>118,130</u>
Total Liabilities and Shareholders Equity	<u>\$1,541,933</u>	<u>\$1,520,217</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 Ended June 30,		Six Months Ended June 30,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>INTEREST AND DIVIDEND INCOME</b>				
Interest and Fees on Loans	\$16,359	\$15,119	\$32,316	\$29,886
Interest on Federal Funds Sold	240	86	491	116
Interest and Dividends on Securities Available-for-Sale	3,771	3,733	7,345	7,205
Interest on Securities Held-to-Maturity	<u>1,039</u>	<u>1,070</u>	<u>2,073</u>	<u>2,133</u>
Total Interest and Dividend Income	<u>21,409</u>	<u>20,008</u>	<u>42,225</u>	<u>39,340</u>
<b>INTEREST EXPENSE</b>				
Interest on Deposits:				
Time Deposits of \$100,000 or More	2,106	1,827	4,266	3,337
Other Deposits	5,578	4,453	10,792	8,456
Interest on Short-Term Borrowings:				
Federal Funds Purchased and Securities Sold				
Under Agreements to Repurchase	348	250	669	453
Other Short-Term Borrowings	8	11	12	19
Federal Home Loan Bank Advances	1,593	1,629	3,160	3,428
Junior Subordinated Obligations Issued to Unconsolidated				
Subsidiary Trusts	<u>351</u>	<u>342</u>	<u>699</u>	<u>669</u>
Total Interest Expense	<u>9,984</u>	<u>8,512</u>	<u>19,598</u>	<u>16,362</u>
<b>NET INTEREST INCOME</b>	11,425	11,496	22,627	22,978
Provision for Loan Losses	<u>92</u>	<u>101</u>	<u>186</u>	<u>374</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>11,333</u>	<u>11,395</u>	<u>22,441</u>	<u>22,604</u>
<b>NONINTEREST INCOME</b>				
Income from Fiduciary Activities	1,419	1,307	2,872	2,610
Fees for Other Services to Customers	2,062	2,009	3,944	3,813
Net Losses on Securities Transactions	---	(118)	---	(118)



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Insurance Commissions	462	482	963	904
Other Operating Income	<u>228</u>	<u>372</u>	<u>404</u>	<u>569</u>
Total Noninterest Income	<u>4,171</u>	<u>4,052</u>	<u>8,183</u>	<u>7,778</u>
<b>NONINTEREST EXPENSE</b>				
Salaries and Employee Benefits	5,439	5,480	10,756	10,951
Occupancy Expense of Premises, Net	831	815	1,643	1,620
Furniture and Equipment Expense	786	813	1,541	1,570
Other Operating Expense	<u>2,517</u>	<u>2,223</u>	<u>4,994</u>	<u>4,344</u>
Total Noninterest Expense	<u>9,573</u>	<u>9,331</u>	<u>18,934</u>	<u>18,485</u>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>				
	5,931	6,116	11,690	11,897
Provision for Income Taxes	<u>1,721</u>	<u>1,839</u>	<u>3,349</u>	<u>3,561</u>
<b>NET INCOME</b>	<u>\$ 4,210</u>	<u>\$ 4,277</u>	<u>\$ 8,341</u>	<u>\$ 8,336</u>
Average Shares Outstanding:				
Basic	10,419	10,607	10,492	10,638
Diluted	10,489	10,749	10,568	10,787
Per Common Share:				
Basic Earnings	\$ .40	\$ .40	\$ .80	\$ .78
Diluted Earnings	.40	.40	.79	.77

Share and Per Share amounts have been restated for the September 2006 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		Undivided	ESOP	Unallo- Accumulated		Treasury	Total	
	Issued	Stock			Profits	cated			Other Com-
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 Net Pension									
Plan Actuarial Loss	---	---	---	---	---	134	---	134	
Accretion of Net Pension									
Plan Prior Service Credit	---	---	---	---	---	(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,	---	---	---	(5,016)	---	---	---	(5,016)	

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\$.48 per Share								
Stock Options Exercised								
(23,405 Shares)	---	---	192	---	---	---	175	367
Shares Issued Under the Directors								
Stock Plan (3,293 Shares)	---	---	48	---	---	---	25	73
Shares Issued Under the Employee								
Stock Purchase Plan (11,397 Shares)								
Stock-Based Compensation	---	---	165	---	---	---	85	250
Expense	---	---	33	---	---	---	---	33
Tax Benefit for Disposition of								
Stock Options	---	---	37	---	---	---	---	37
Acquisition by ESOP of Arrow Stock								
(67,190 Shares)	---	---	---	---	(1,500)	---	---	(1,500)
Allocation of ESOP Stock								
(23,317 Shares)	---	---	215	---	320	---	---	535
Acquisition of Subsidiary								
(4,317 Shares)	---	---	79	---	---	---	32	111
Purchase of Treasury Stock								
(208,150 Shares)	---	---	---	---	---	---	(4,751)	(4,751)
Balance at June 30, 2007	<u>14,299,556</u>	<u>\$14,300</u>	<u>\$151,688</u>	<u>\$20,944</u>	<u>\$(2,042)</u>	<u>\$(8,664)</u>	<u>\$(60,315)</u>	<u>\$115,911</u>

See Notes to Unaudited Consolidated Interim Financial Statements.



## ARROW FINANCIAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)(Unaudited)

	Six Months Ended June 30,	
	<u>2007</u>	<u>2006</u>
<b>Operating Activities:</b>		
Net Income	\$ 8,341	\$ 8,336
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	186	374
Depreciation and Amortization	1,519	1,406
Compensation Expense for Allocated ESOP Shares	215	269
Gains on the Sale of Securities Available-for-Sale	---	(14)
Losses on the Sale of Securities Available-for-Sale	---	132
Loans Originated and Held-for-Sale	(818)	(4,173)
Proceeds from the Sale of Loans Held-for-Sale	3,083	4,994
Net Gains on the Sale of Loans	(29)	(55)
Net Gains on the Sale of Premises and Equipment,		
Other Real Estate Owned and Repossessed Assets	(2)	(224)
Contributions to Pension Plans	(259)	(2,259)
Deferred Income Tax (Benefit) Expense	(15)	571
Stock-Based Compensation Expense	33	---
Shares Issued Under the Directors' Stock Plan	73	65
Net Increase in Other Assets	(628)	(577)
Net (Decrease) Increase in Other Liabilities	<u>(389)</u>	<u>1,428</u>
<b>Net Cash Provided By Operating Activities</b>	<b><u>11,310</u></b>	<b><u>10,273</u></b>
<b>Investing Activities:</b>		
Proceeds from the Sale of Securities Available-for-Sale	1,195	20,496

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Proceeds from the Maturities and Calls of Securities Available-for-Sale	26,762	14,530
Purchases of Securities Available-for-Sale	(46,572)	(50,218)
Proceeds from the Maturities of Securities Held-to-Maturity	7,246	17,566
Purchases of Securities Held-to-Maturity	(10,543)	---
Net (Increase) Decrease in Loans	(11,654)	285
Proceeds from the Sales of Premises and Equipment,		
Other Real Estate Owned and Repossessed Assets	413	960
Purchases of Premises and Equipment	<u>(1,066)</u>	<u>(920)</u>
<b>Net Cash (Used In) Provided by Investing Activities</b>	<u>(34,219)</u>	<u>2,699</u>
<b>Financing Activities:</b>		
Net Increase (Decrease) in Deposits	18,770	(14,658)
Net Increase in Short-Term Borrowings	840	6,763
Federal Home Loan Bank Advances	10,000	56,000
Federal Home Loan Bank Repayments	(5,000)	(50,000)
Tax Benefit from Exercise of Stock Options	37	2
Purchases of Treasury Stock	(4,751)	(4,041)
Treasury Stock Issued for Stock-Based Plans	617	285
Common Stock Purchased by ESOP	(1,500)	---
Allocation of ESOP Shares	320	301
Cash Dividends Paid	<u>(5,016)</u>	<u>(4,938)</u>
<b>Net Cash Provided By (Used In) Financing Activities</b>	<u>14,317</u>	<u>(10,286)</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(8,592)	2,686
Cash and Cash Equivalents at Beginning of Period	<u>43,995</u>	<u>35,558</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$35,403</u>	<u>\$38,244</u>
<b>Supplemental Cash Flow Information:</b>		
Cash Paid During the Year for:		
Interest on Deposits and Borrowings	\$17,906	\$15,109
Income Taxes	5,902	3,240
Non-cash Investing and Financing Activities:		
Transfer of Loans to Other Real Estate Owned and Repossessed Assets	279	306
Changes in the Valuation Allowance for Securities Available-for-Sale, Net of Tax	(726)	(2,912)
Shares Issued for CFG Acquisition	111	41
Change in Pension Liability Recognized in Other Comprehensive Income	27	---

See Notes to Unaudited Consolidated Interim Financial Statements.





**ARROW FINANCIAL CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**June 30, 2007**

1. Financial Statement Presentation

In the opinion of the management of Arrow Financial Corporation (Arrow), the accompanying Unaudited Consolidated Interim Financial Statements contain all of the adjustments necessary to present fairly the financial position as of June 30, 2007 and December 31, 2006; the results of operations for the three-month and six-month periods ended June 30, 2007 and 2006; the changes in shareholders' equity for the six-month period ended June 30, 2007; and the cash flows for the six-month periods ended June 30, 2007 and 2006. All such adjustments are of a normal recurring nature. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements of Arrow for the year ended December 31, 2006, included in Arrow's 2006 Form 10-K.

2. Accumulated Other Comprehensive Loss (In Thousands)

The following table presents the components, net of tax, of accumulated other comprehensive loss as of June 30, 2007 and December 31, 2006:

	<u>2007</u>	<u>2006</u>
Excess of Additional Pension Liability Over Unrecognized Prior Service Cost	\$(4,469)	\$(4,238)
Net Unrealized Securities Holding Losses		