

PEOPLES FINANCIAL SERVICES CORP.
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2010 or

() Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the transition period from

No. 0-23863
(Commission File Number)

PEOPLES FINANCIAL SERVICES CORP.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania
(State of Incorporation)

23-2391852
(IRS Employer ID Number)

82 Franklin Avenue
Hallstead, PA
(Address of Principal Executive Offices)

18822
(Zip Code)

(570) 879-2175
(Registrant's Telephone Number)

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 such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ___ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___ Smaller reporting company ___
(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

Number of shares outstanding as of July 31, 2010

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COMMON STOCK (\$2 Par Value)
(Title of Class)

3,141,056
(Outstanding Shares)

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PEOPLES FINANCIAL SERVICES CORP.
FORM 10-Q

For the Quarter Ended June 30, 2010

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED BALANCE SHEETS (Unaudited)
June 30, 2010 and December 31, 2009

(In thousands, except share and per share data)

	June 30 2010	Dec. 31, 2009
ASSETS:		
Cash and due from banks	\$7,447	\$ 7,259
Interest bearing deposits in other banks	66	895
Federal funds sold	33,615	10,761
Cash and cash equivalents	41,128	18,915
Securities available for sale	120,903	130,506
Loans	370,437	336,303
Allowance for loan losses	(4,791)	(3,337)
Loans, net	365,646	332,966
Investment in restricted stock, at cost	2,870	2,870
Bank premises and equipment, net	8,116	7,509
Accrued interest receivable	2,769	2,580
Intangible assets	431	560
Other real estate owned	3,650	5,534
Bank owned life insurance	8,188	8,253
Other assets	5,492	6,790
Total assets	\$559,193	\$ 516,483
LIABILITIES:		
Deposits:		
Non-interest bearing	\$71,706	\$ 71,835
Interest bearing	362,843	338,203
Total deposits	434,549	410,038
Accrued interest payable	382	446
Short-term borrowings	34,135	20,439
Long-term borrowings	38,299	38,750
Other liabilities	2,699	1,840
Total liabilities	510,064	471,513
STOCKHOLDERS' EQUITY:		
Common Stock, par value \$2 per share; authorized 12,500,000 shares; issued 3,341,251 shares; outstanding 3,141,056 shares and 3,136,156 shares June 30, 2010 and December 31, 2009, respectively	6,683	6,683
Surplus	3,116	3,098
Retained earnings	43,862	42,043
Accumulated other comprehensive loss	(21)	(2,258)
Treasury stock at cost 200,195 and 205,095 shares at June 30, 2010 and December 31, 2009, respectively	(4,511)	(4,596)
Total stockholders' equity	49,129	44,970
Total liabilities and stockholders' equity	\$559,193	\$ 516,483

PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
INTEREST INCOME:				
Loans receivable, including fees	\$ 5,226	\$ 4,880	\$ 10,213	\$ 9,724
Securities:				
Taxable	758	693	1,522	1,517
Tax exempt	488	530	982	1,031
Other	9	5	14	20
Total interest income	6,481	6,108	12,731	12,292
INTEREST EXPENSE:				
Deposits	1,221	1,204	2,473	2,866
Short-term borrowings	101	85	172	152
Long-term borrowings	393	404	785	806
Total interest expense	1,715	1,693	3,430	3,824
Net interest income	4,766	4,415	9,301	8,468
PROVISION FOR LOAN LOSSES				
Net interest income after provision for loan losses	4,084	3,375	7,724	7,263
OTHER INCOME:				
Customer service fees	524	479	1,014	929
Investment division commission income	99	119	159	225
Earnings on investment in life insurance	82	82	164	170
Other income	140	330	598	494
Net realized gains on sales of securities available for sale	179	339	201	518
Other than temporary equity security impairment	0	(60)	0	(136)
Total other income	1,024	1,289	2,136	2,200
OTHER EXPENSES:				
Salaries and employee benefits	1,395	1,365	2,706	2,706
Occupancy	196	200	433	439
Equipment	139	131	262	275
FDIC insurance and assessments	185	453	367	544
Professional fees and outside services	150	138	309	276
Computer services and supplies	279	279	541	526
Taxes, other than payroll and income	123	114	193	210
Amortization expense-deposit acquisition premiums	64	64	129	129
Advertising	112	70	209	157
Stationary and printing supplies	102	93	197	183
Other	478	311	914	694
Total other expenses	3,223	3,218	6,260	6,139

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Income before income taxes	1,885	1,446	3,600	3,324
INCOME TAXES	361	193	558	550
Net income	\$ 1,524	\$ 1,253	\$ 3,042	\$ 2,774
Net income per share, basic	\$ 0.49	\$ 0.40	\$ 0.97	\$ 0.89
Net income per share, diluted	\$ 0.48	\$ 0.40	\$ 0.97	\$ 0.89

See Notes to Consolidated Financial Statements

PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)

(In thousands, except share data)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2009	\$6,683	\$3,098	\$42,043	\$ (2,258)	\$(4,596)	\$44,970
Comprehensive income						
Net income	0	0	3,042	0	0	3,042
Net change in unrealized losses on securities available for sale, net of reclassification adjustment and taxes	0	0	0	2,237	0	2,237
Total comprehensive income						5,279
Cash dividends, (\$0.39 per share)	0	0	(1,223)	0	0	(1,223)
Treasury stock issued for stock option plan (4,900 shares)	0	18	0	0	85	103
Balance, June 30, 2010	\$6,683	\$3,116	\$43,862	\$ (21)	\$(4,511)	\$49,129
Balance, December 31, 2008	\$6,683	\$3,100	\$39,375	\$ (4,755)	\$(4,683)	\$39,720
Comprehensive income						
Net income	0	0	2,774	0	0	2,774
Net change in unrealized losses on securities available for sale, net of reclassification adjustment and taxes	0	0	0	(71)	0	(71)
Total comprehensive income						2,703
Cash dividends, (\$0.38 per share)	0	0	(1,190)	0	0	(1,190)
Treasury stock issued for stock option plan (3,475 shares)	0	(1)	0	0	60	59
Balance, June 30, 2009	\$6,683	\$3,099	\$40,959	\$ (4,826)	\$(4,623)	\$41,292

See Notes to Consolidated Financial Statements

PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Six Months Ended	
	June 30, 2010	June 30, 2009
Cash Flows from Operating Activities		
Net income	\$3,042	\$2,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	473	479
Provision for loan losses	1,577	1,205
Amortization of securities' premiums and accretion of discounts, net	90	129
Amortization of deferred loan costs	109	165
Gains on sales of securities available for sale, net	(201)	(518)
Other than temporary security impairment	0	136
Proceeds from the sale of loans originated for sale	2,954	16,140
Net gain on sale of loans originated for sale	(140)	(165)
Loans originated for sale	(3,096)	(12,840)
Net earnings on investment in life insurance	(164)	(170)
Gain from investment in life insurance	(320)	0
Loss on sale of other real estate owned	47	0
Increase in accrued interest receivable	(189)	(207)
(Increase) decrease in other assets	145	(24)
Decrease in accrued interest payable	(64)	(1,211)
Increase (decrease) in other liabilities	859	(329)
Net cash provided by operating activities	5,122	5,564
Cash Flows from Investing Activities		
Proceeds from sale of available for sale securities	55,253	27,804
Proceeds from maturities of and principal payments received on available for sale securities	10,293	7,054
Purchase of available for sale securities	(52,444)	(27,814)
Net increase in loans	(34,259)	(6,767)
Net increase in restricted stock	0	(147)
Purchase of premises and equipment	(951)	(145)
Proceeds from investment in life insurance	549	0
Investment in other real estate owned	0	(42)
Proceeds from sale of other real estate owned	2,014	0
Net cash provided by (used in) investing activities	(19,545)	90
Cash Flows from Financing Activities		
Cash dividends paid	(1,223)	(1,190)
Increase (decrease) in deposits	24,511	(10,892)
Repayment of long-term borrowings	(451)	(500)
Increase in short-term borrowings	13,696	1,590
Issuance of common stock	103	59
Net cash provided by (used in) financing activities	36,636	(10,933)
Net increase (decrease) in cash and cash equivalents	22,213	(5,279)
Cash and cash equivalents, beginning of year	18,915	18,533

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Cash and cash equivalents, end of period	\$41,128	\$13,254
Supplemental disclosures of cash paid		
Interest paid	\$3,494	\$5,035
Income taxes paid (refunded)	\$(656) \$815
Non-cash investing and financing activities		
Transfers from loans to other real estate owned through foreclosure	\$177	\$227
Consideration received for exchange of securities available for sale	\$0	\$526

See Notes to Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Peoples Financial Services Corp. (the “Corporation” or the “Company”) and its wholly owned subsidiaries, Peoples National Bank (the “Bank”), Peoples Advisors, LLC (“Advisors”), and Peoples Financial Capital Corporation. The Bank has two wholly owned subsidiaries, Peoples Financial Leasing, LLC and Peoples Investment Holdings, LLC. All material inter-company accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information as well as with instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by g