

PEOPLES FINANCIAL SERVICES CORP.
Form 10-Q
August 10, 2009

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, 2009 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 X 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, 2009

COMMON STOCK (\$2 Par Value)	3,134,656
(Title of Class)	(Outstanding Shares)

PEOPLES FINANCIAL SERVICES CORP.
FORM 10-Q

For the Quarter Ended June 30, 2009

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

June 30, 2009 and December 31, 2008

(In thousands, except share and per share data)

	June 2009	Dec 2008
ASSETS:		
Cash and due from banks	\$6,888	\$6,174
Interest bearing deposits in other banks	769	1,782
Federal funds sold	5,597	10,577
Cash and cash equivalents	13,254	18,533
Securities available for sale	103,349	110,247
Loans	318,569	316,608
Allowance for loan losses	(2,928)	(3,002)
Loans, net	315,641	313,606
Bank premises and equipment, net	7,337	7,542
Accrued interest receivable	2,733	2,526
Intangible assets	689	818
Other real estate owned	5,440	5,171
Bank owned life insurance	8,081	7,911
Other assets	6,082	6,022
Total assets	\$462,606	\$472,376
LIABILITIES:		
Deposits:		
Non-interest bearing	\$65,160	\$55,324
Interest bearing	295,216	315,944
Total deposits	360,376	371,268
Accrued interest payable	438	1,649
Short-term borrowings	20,022	18,432
Long-term borrowings	39,191	39,691
Other liabilities	1,287	1,616
Total liabilities	421,314	432,656
STOCKHOLDERS' EQUITY:		
Common Stock, par value \$2 per share; authorized 12,500,000 shares; issued 3,341,251 shares; outstanding 3,134,656 shares and 3,131,181 shares June 30, 2009 and December 31, 2008, respectively	6,683	6,683
Surplus	3,099	3,100
Retained earnings	40,959	39,375
Accumulated other comprehensive loss	(4,826)	(4,755)
Treasury stock at cost 206,595 and 210,070 shares at June 30, 2009 and December 31, 2008, respectively	(4,623)	(4,683)
Total stockholders' equity	41,292	39,720
Total liabilities and stockholders' equity	\$462,606	\$472,376

See Notes to Consolidated Financial Statements

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

(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30	June 30	June 30	June 30
	2009	2008	2009	2008
INTEREST INCOME:				
Loans receivable, including fees	\$4,880	\$4,927	\$9,724	\$9,949
Securities:				
Taxable	693	974	1,517	1,940
Tax exempt	530	401	1,031	818
Other	5	6	20	12
Total interest income	6,108	6,308	12,292	12,719
INTEREST EXPENSE:				
Deposits	1,204	1,631	2,866	3,491
Short-term borrowings	85	69	152	201
Long-term borrowings	404	448	806	890
Total interest expense	1,693	2,148	3,824	4,582
Net interest income	4,415	4,160	8,468	8,137
PROVISION FOR LOAN LOSSES	1,040	135	1,205	255
Net interest income after provision for loan losses	3,375	4,025	7,263	7,882
OTHER INCOME:				
Customer service fees	479	509	929	978
Investment division commission income	119	76	225	160
Earnings on investment in life insurance	82	76	170	155
Other income	330	141	494	263
Net realized gains (losses) on sales of securities available for sale	339	(10)	518	16
Other than temporary security impairment	(60)	(83)	(136)	(265)
Total other income	1,289	709	2,200	1,307
OTHER EXPENSES:				
Salaries and employee benefits	1,365	1,130	2,706	2,340
Occupancy	200	174	439	372
Equipment	131	114	275	239
FDIC insurance and assessments	453	38	544	75
Professional fees and outside services	138	115	276	285
Computer services and supplies	279	230	526	461
Taxes, other than payroll and income	114	87	210	177
Amortization expense-deposit acquisition premiums	64	64	129	129
Stationary and printing supplies	93	92	183	170
Other	381	470	851	927
Total other expenses	3,218	2,514	6,139	5,175
Income before income taxes	1,446	2,220	3,324	4,014
INCOME TAXES	193	516	550	895
Net income	\$1,253	\$1,704	\$2,774	\$3,119
Net income per share, basic	\$0.40	\$0.54	\$0.89	\$1.00

Net income per share, diluted	\$0.40	\$0.54	\$0.89	\$1.00
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See Notes to Consolidated Financial Statements

PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(UNAUDITED)

(In thousands except share data)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
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
Balance, December 31, 2007	\$6,683	\$3,083	\$38,824	\$ (1,390)	\$(4,395)	\$42,805
Cumulative effect of adoption of new accounting principle on January 1, 2008	0	0	(71)	0	0	(71)
Comprehensive income						
Net income	0	0	3,119	0	0	3,119
Net change in unrealized losses on securities available for sale, net of reclassification adjustment and taxes	0	0	0	(2,542)	0	(2,542)
Total comprehensive income						577
Stock option expense	0	1	0	0	0	1
Cash dividends, (\$0.38 per share)	0	0	(1,226)	0	0	(1,226)
Treasury stock purchase (20,000 shares)	0	0	0	0	(506)	(506)
Treasury stock issued for stock option plan (9,688 shares)	0	9	0	0	167	176
Balance, June 30, 2008	\$6,683	\$3,093	\$40,646	\$ (3,932)	\$(4,734)	\$41,756

See Notes to Consolidated Financial Statements

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

(In thousands)	Six Months Ended	
	June 30, 2009	June 30, 2008
Cash Flows from Operating Activities		
Net income	\$ 2,774	\$ 3,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	479	430
Provision for loan losses	1,205	255
Gain on sale of other real estate owned	0	(15)
Amortization of securities' premiums and accretion of discounts, net	129	82
Amortization of deferred loan costs	165	176
Gains on sales of securities available for sale, net	(518)	(16)
Other than temporary security impairment	136	265
Stock option expense	0	1
Proceeds from the sale of loans originated for sale	16,140	3,420
Net gain on sale of loans originated for sale	(165)	(35)
Loans originated for sale	(12,840)	(3,258)
Net earnings on investment in life insurance	(170)	(155)
Increase in accrued interest receivable	(207)	(519)
Increase in other assets	(24)	(89)
Increase (decrease) in accrued interest payable	(1,211)	276
Decrease in other liabilities	(329)	(585)
Net cash provided by operating activities	5,564	3,352
Cash Flows from Investing Activities		
Proceeds from sale of available for sale securities	27,804	46,018
Proceeds from maturities of and principal payments received on available for sale securities	7,054	4,273
Purchase of available for sale securities	(27,814)	(52,875)
Net increase in loans	(6,767)	(7,439)
Purchase of premises and equipment	(145)	(788)
Investment in other real estate owned	(42)	0
Proceeds from sale of other real estate owned	0	180
Net cash provided by (used in) investing activities	90	(10,631)
Cash Flows from Financing Activities		
Cash dividends paid	(1,190)	(1,226)
Increase (decrease) in deposits	(10,892)	11,446
Proceeds from long-term borrowings	0	5,000
Repayment of long-term borrowings	(500)	(718)
Increase (decrease) in short-term borrowings	1,590	(5,224)
Purchase of treasury stock	0	(506)
Proceeds from sale of treasury stock	59	176
Net cash provided by (used in) financing activities	(10,933)	8,948
Net increase (decrease) in cash and cash equivalents	(5,279)	1,669
Cash and cash equivalents, beginning of year	18,533	8,606

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Cash and cash equivalents, end of period	\$ 13,254	\$ 10,275
Supplemental disclosures of cash paid		
Interest paid	\$ 5,035	\$ 4,306
Income taxes paid	\$ 815	\$ 1,030
Non-cash investing and financing activities		
Transfers from loans to other real estate owned through foreclosure	\$ 227	\$ 99
Consideration received for exchange of securities available for sale (see page 34)	\$ 526	\$ 0

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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. For further information, refer to the consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

Effective April 1, 2009, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 165, Subsequent Events. SFAS No. 165 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred between June 30, 2009 through August 10, 2009, the date these consolidated financial statements were issued.

NOTE 2. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net income applicable to common stock	\$1,253,000	\$1,704,000	\$2,774,000	\$3,119,000
Weighted average common shares outstanding	3,133,480	3,126,855	3,132,353	3,125,284
Effect of dilutive securities, stock options	120	5,139	274	6,058
Weighted average common shares outstanding used to calculate diluted earnings per share	3,133,600	3,131,994	3,132,627	3,131,342
Basic earnings per share	\$0.40	\$0.54	\$0.89	\$1.00
Diluted earnings per share	\$0.40	\$0.54	\$0.89	\$1.00

Stock options for 23,429 and 11,959 shares of common stock were not considered in computing diluted earnings per share for the three and six months ended June 30, 2009 and for the three and six months ended June 30, 2008, respectively because they are antidilutive.

NOTE 3. SECURITIES AVAILABLE FOR SALE

At June 30, 2009 and December 31, 2008, the amortized cost and fair values of securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
June 30, 2009:				
U.S. Government agencies and corporations	\$15,239	\$45	\$(351)	) \$14,933
Obligations of state and political subdivisions	52,718	170	(2,769)	) 50,119
Taxable obligations of state and political subdivisions	5,759	24	(214)	) 5,569
Corporate debt securities	20,827	18	(3,839)	) 17,006
Mortgage-backed securities	11,422	239	(45)	) 11,616
Preferred equity securities	78	0	(36)	) 42
Common equity securities	4,618	13	(567)	) 4,064
Total	\$110,661	\$509	\$(7,821)	) \$103,349
December 31, 2008:				
U.S. Government agencies and corporations	\$7,891	\$67	\$0	) \$7,958
Obligations of state and political subdivisions	47,914	120	(3,319)	) 44,715
Taxable obligations of state and political subdivisions	3,166	0	(106)	) 3,060
Corporate debt securities	20,828	40	(3,898)	) 16,970
Mortgage-backed securities	32,487	325	(47)	) 32,765
Preferred equity securities	78	0	(58)	) 20
Common equity securities	5,086	0	(327)	) 4,759
Total	\$117,450	\$552	\$(7,755)	) \$110,247

The amortized cost and fair value of securities as of June 30, 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without any penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 1,321	\$ 1,324
Due after one year through five years	6,689	5,844
Due after five years through ten years	29,970	27,115
Due after ten years	56,563	53,344
	94,543	87,627
Mortgage-backed securities	11,422	11,616
Equity securities	4,696	4,106
	\$ 110,661	\$ 103,349

Proceeds from sale of available-for-sale securities during the six months ended June 30, 2009 and 2008 and the year ended December 31, 2008 were \$27,804,000, \$46,018,000, and \$57,997,000, respectively. Gross gains realized on these sales were \$280,000, \$298,000, and \$412,000, respectively. Gross losses on these sales were \$9,000, \$268,000, and \$284,000, respectively.

Securities with a carrying value of \$42,493,000 and \$44,313,000 at June 30, 2009 and December 31, 2008, respectively, were pledged to secure public deposits and repurchase agreements as required or permitted by law.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008 (in thousands):

June 30, 2009:

	Less Than 12 Months		12 Months or More		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
U.S. Government agencies and corporations	\$ 11,953				