

PEOPLES FINANCIAL SERVICES CORP/
Form 10-Q
November 08, 2005

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 **September 30, 2005** 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 Identification No.)

50 MAIN STREET, HALLSTEAD, PA
(Address of principal executive offices)

18822
(Zip code)

(570) 879-2175
(Registrant's telephone number including area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes X No_____

Number of shares outstanding as of September 30, 2005

COMMON STOCK (\$2 Par Value) 3,151,128

(Title of Class) (Outstanding Shares)

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PEOPLES FINANCIAL SERVICES CORP.
FORM 10-Q

For the Quarter Ended September 30, 2005

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements**PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED BALANCE SHEETS

September 30, 2005 (UNAUDITED) and December 31, 2004

(In thousands, except share data)

ASSETS:	<i>Sept 2005</i>	<i>Dec 2004</i>
Cash and due from banks	\$ 7,079	\$ 5,903
Interest bearing deposits in other banks	103	102
Cash and cash equivalents	7,182	6,005
Securities available for sale	111,621	113,598
Loans	251,283	244,814
Allowance for loan losses	(2,599)	(2,739)
Loans, net	248,684	242,075
Bank premises and equipment, net	5,790	4,904
Accrued interest receivable	1,959	1,987
Intangible assets	1,696	1,892
Other assets	9,468	8,914
Total assets	\$ 386,400	\$ 379,375
LIABILITIES:		
Deposits:		
Non-interest bearing	\$ 48,047	\$ 42,999
Interest bearing	245,316	231,776
Total deposits	293,363	274,775
Accrued interest payable	578	550
Short-term borrowings	14,851	14,614
Long-term borrowings	37,825	46,034
Other liabilities	440	1,048
Total liabilities	347,057	337,021
STOCKHOLDERS' EQUITY		
Common stock, par value \$2 per share; authorized 12,500,000 shares; issued 3,341,251 shares; outstanding 3,151,128 shares and 3,155,801 shares at September 30, 2005 and December 31, 2004, respectively		
	6,683	6,683
Surplus	2,897	2,821
Retained earnings	33,903	35,665
Accumulated other comprehensive income (loss)	(399)	618
Treasury stock at cost	(3,741)	(3,433)
Total stockholders' equity	39,343	42,354
Total liabilities and stockholders' equity	\$ 386,400	\$ 379,375

See Notes to Consolidated Financial Statements

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

(In thousands, except per share data)	Nine months ended		Three months ended	
	Sept 30 2005	Sept 30 2004	Sept 30 2005	Sept 30 2004
INTEREST INCOME:				
Loans receivable, including fees	\$ 11,882	\$ 11,237	\$ 4,086	\$ 3,783
Securities:				
Taxable	2,368	2,368	783	778
Tax exempt	1,140	1,269	395	436
Other	52	42	20	20
Total interest income	15,442	14,916	5,284	5,017
INTEREST EXPENSE:				
Deposits	4,067	3,612	1,503	1,183
Short-term borrowings	213	90	98	30
Long-term borrowings	1,770	1,603	577	572
Total interest expense	6,050	5,305	2,178	1,785
Net interest income	9,392	9,611	3,106	3,232
PROVISION FOR LOAN LOSSES	0	1,050	0	150
Net interest income after provision for loan losses	9,392	8,561	3,106	3,082
OTHER INCOME:				
Customer service fees	1,276	1,095	464	396
Other income	618	738	194	272
Net realized gains on sales of securities available for sale	187	181	53	105
Total other income	2,081	2,014	711	773
OTHER EXPENSES:				
Salaries and employee benefits	3,349	3,023	1,088	1,043
Occupancy	409	375	140	108
Equipment	325	243	103	88
FDIC insurance and assessments	106	105	35	35
Professional fees and outside services	354	223	112	69
Prepayment penalty - FHLB	808	0	808	0
Computer services and supplies	578	453	221	155
Taxes, other than payroll and income	246	290	80	96
Other	1,422	1,341	458	448
Total non-interest expense	7,597	6,053	3,045	2,042
Income before income taxes	3,876	4,522	772	1,813
INCOME TAXES	694	915	52	394
Net income	\$ 3,182	\$ 3,607	720	1,419
Net income per share, basic	\$ 1.01	\$ 1.14	\$ 0.23	\$ 0.45
Net income per share, diluted	\$ 1.00	\$ 1.13	\$ 0.23	\$ 0.44

See Notes to Consolidated Financial Statements

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PEOPLES FINANCIAL SERVICES CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE-MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

(In thousands, except share data)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock	Total
Balance, December 31, 2004	\$ 6,683	\$ 2,821	\$ 35,665	\$ 618	\$ (3,433)	\$ 42,354
Comprehensive income						
Net income	0	0	3,182	0	0	3,182
Net change in unrealized gains (losses) on securities available for sale, net of reclassification adjustment and taxes	0	0	0	(1,017)	0	(1,017)
Total comprehensive income						2,165
Cash dividends, (\$1.57 per share)	0	0	(4,944)	0	0	(4,944)
Treasury stock purchase (10,215 shares)	0	0	0	0	(356)	(356)
Treasury stock issued for stock option plan (5,542 shares), including tax benefit of \$31,000	0	76	0	0	48	124
Balance, September 30, 2005	\$ 6,683	\$ 2,897	\$ 33,903	\$ (399)	\$ (3,741)	\$ 39,343
Balance, December 31, 2003						
Balance, December 31, 2003	\$ 6,683	\$ 2,618	\$ 33,523	\$ 995	\$ (2,743)	\$ 41,076
Comprehensive income						
Net income	0	0	3,607	0	0	3,607
Net change in unrealized gains (losses) on securities available for sale, net of reclassification adjustment and taxes	0	0	0	(353)	0	(353)
Total comprehensive income						3,254
Cash dividends, (\$0.54 per share)	0	0	(1,711)	0	0	(1,711)
Treasury stock purchase (20,500 shares)	0	0	0	0	(703)	(703)
Treasury stock issued for stock option plan (11,184 shares), including tax benefit of \$60,000	0	160	0	0	99	259
Balance, September 30, 2004	\$ 6,683	\$ 2,778	\$ 35,419	\$ 642	\$ (3,347)	\$ 42,175

See Notes to Consolidated Financial Statements

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

(In thousands)	Nine-months ended	
	Sept 30, 2005	Sept 30, 2004
Cash Flows from Operating Activities		
Net income	\$ 3,182	\$ 3,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	555	480
Provision for loan losses	0	1,050
Amortization of securities' premiums and accretion of discounts	451	416
(Gains) on sales of investment securities, net	(187)	(181)
Proceeds from the sale of mortgage loans	1,155	2,977
Net gain on sale of loans	(22)	(43)
Loans originated for sale	(1,133)	(2,934)
Net earnings on investment in life insurance	(196)	(169)
Decrease in accrued interest receivable	28	64
(Increase) decrease in other assets	192	(80)
Increase (decrease) in accrued interest payable	28	(44)
Increase (decrease) in other liabilities	(608)	240
Net cash provided by operating activities	3,445	5,383
Cash Flows from Investing Activities		
Proceeds from sale of available for sale securities	19,371	22,022
Proceeds from maturities of available for sale securities	8,670	2,639
Purchase of available for sale securities	(31,989)	(29,182)
Principal payments on mortgage-backed securities	4,120	5,707
Net increase in loans	(6,809)	(7,408)
Purchase of premises and equipment	(1,245)	(529)
Proceeds from sale of other real estate	174	167
Purchase of investment in life insurance	0	(2,000)
Net cash (used in) investing activities	(7,708)	(8,584)
Cash Flows from Financing Activities		
Cash dividends paid	(4,944)	(1,711)
Increase in deposits	18,588	653
Proceeds from long-term borrowings	10,000	5,000
Repayment of long-term borrowings	(18,209)	(685)
Increase (decrease) in short-term borrowings	237	214
Purchase of treasury stock	(356)	(703)
Proceeds from sale of treasury stock	124	259
Net cash provided by financing activities	5,440	3,027
Net increase (decrease) in cash/cash equivalents	1,177	(174)
Cash and cash equivalents, beginning of year	6,005	6,056
Cash and cash equivalents, end of year	\$ 7,182	\$ 5,882
Supplemental disclosures of cash paid		
Interest paid	\$ 6,022	\$ 5,349
Income taxes paid	\$ 957	\$ 720
Non-cash investing and financing activities		
Transfers from loans to real estate through foreclosure	\$ 200	\$ 333

See Notes to Consolidated Financial Statements

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The consolidated financial statements include the accounts of Peoples Financial Services Corp. (the "Corporation" or the "Company") and its wholly owned subsidiary, Peoples National Bank (the "Bank"). The Company has formed Peoples Advisors, LLC ("Advisors") as a member-managed liability company under the laws of the Commonwealth of Pennsylvania, to be a wholly owned subsidiary of the Company, for the purpose of providing investment advisory services to the general public. The subsidiary was not active as of the date of this quarterly report. All material intercompany 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. 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 nine-month period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year-ended December 31, 2005. For further information, refer to the financial statements and footnotes included in the Company's Annual Report on Form 10K for the year-ended December 31, 2004.

NOTE 2. EARNINGS PER SHARE

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

	Nine-months ended		Three-months ended	
	Sept 30 2005	Sept 30 2004	Sept 30 2005	Sept 30 2004
Net income applicable to common stock	\$ 3,182,000	\$ 3,607,000	\$ 720,000	\$ 1,419,000
Weighted average common shares outstanding	3,150,771	3,168,939	3,150,095	3,168,895
Effect of dilutive securities, stock options	17,542	21,915	15,872	20,951
Weighted average common shares outstanding used to calculate diluted earnings per share	\$ 3,168,313	\$ 3,190,854	\$	\$