

PEOPLES FINANCIAL CORP /MS/

Form 10-Q

August 12, 2011

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2011
or

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number 001-12103
PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi 64-0709834

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Lameuse and Howard Avenues, Biloxi, Mississippi 39533
(Address of principal executive offices) (Zip Code)
(228) 435-5511

(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 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 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company X

Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date. Peoples Financial Corporation has only one class of common stock authorized. At July 29, 2011, there were 15,000,000 shares of \$1 par value common stock authorized, with 5,136,918 shares issued and outstanding.

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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Condition

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Cash and due from banks	\$ 45,605,429	\$ 24,146,939
Available for sale securities	319,529,536	287,078,463
Held to maturity securities, fair value of \$2,006,142 at June 30, 2011; \$2,010,430 at December 31, 2010	1,916,323	1,914,879
Other investments	3,843,455	3,926,371
Federal Home Loan Bank Stock, at cost	2,153,000	2,281,200
Loans	393,389,744	409,898,757
Less: Allowance for loan losses	6,713,484	6,650,258
Loans, net	386,676,260	403,248,499
Bank premises and equipment, net of accumulated depreciation	28,853,143	29,756,239
Other real estate	8,163,237	5,744,150
Accrued interest receivable	3,532,014	3,292,430
Cash surrender value of life insurance	16,076,138	15,951,117
Prepaid FDIC assessments	2,898,420	3,652,972
Other assets	1,968,018	5,552,225
Total assets	\$ 821,214,973	\$ 786,545,484

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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Condition (continued)

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Liabilities & Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$ 109,784,048	\$ 108,277,985
Savings and demand, interest bearing	217,789,641	193,631,209
Time, \$100,000 or more	124,242,102	134,667,660
Other time deposits	46,603,645	47,562,661
Total deposits	498,419,436	484,139,515
Federal funds purchased and securities sold under agreements to repurchase	169,044,469	140,102,019
Borrowings from Federal Home Loan Bank	28,955,873	42,957,016
Other liabilities	18,547,716	17,990,072
Total liabilities	714,967,494	685,188,622
Shareholders Equity:		
Common stock, \$1 par value, 15,000,000 shares authorized, 5,136,918 and 5,151,139 shares issued and outstanding at June 30, 2011 and December 31, 2010	5,136,918	5,151,139
Surplus	65,780,254	65,780,254
Undivided profits	33,909,136	33,302,381
Accumulated other comprehensive income (loss), net of tax	1,421,171	(2,876,912)
Total shareholders equity	106,247,479	101,356,862
Total liabilities & shareholders equity	\$ 821,214,973	\$ 786,545,484

See accompanying notes to consolidated financial statements.

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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June		Six Months Ended June 30,	
	2011	30, 2010	2011	2010
Interest income:				
Interest and fees on loans	\$ 4,381,186	\$ 4,893,342	\$ 9,287,948	\$ 9,880,468
Interest and dividends on securities:				
U.S. Treasuries	63,266	131,216	127,129	325,478
U.S. Government agencies	1,711,696	2,312,723	3,151,058	4,612,426
Mortgage-backed securities	30,957	132,048	30,957	518,924
States and political subdivisions	360,357	316,668	729,458	673,597
Other investments	2,421	3,203	8,639	7,654
Interest on federal funds sold	3,386	1,557	4,738	5,336
Total interest income	6,553,269	7,790,757	13,339,927	16,023,883
Interest expense:				
Deposits	651,406	849,297	1,354,117	1,666,786
Long-term borrowings	45,402	109,559	95,467	246,204
Federal funds purchased and securities sold under agreements to repurchase	169,545	276,351	341,568	562,741
Total interest expense	866,353	1,235,207	1,791,152	2,475,731
Net interest income	5,686,916	6,555,550	11,548,775	13,548,152
Provision for allowance for losses on loans	546,000	1,585,000	1,187,000	2,735,000
Net interest income after provision for allowance for losses on loans	\$ 5,140,916	\$ 4,970,550	\$ 10,361,775	\$ 10,813,152

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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Income (continued)
(Unaudited)

	Three Months Ended June		Six Months Ended June 30,	
	30,		2011	2010
	2011	2010	2011	2010
Non-interest income:				
Trust department income and fees	\$ 323,468	\$ 282,941	\$ 669,923	\$ 590,237
Service charges on deposit accounts	1,455,146	1,579,485	2,874,174	3,151,988
Gain on sales or calls of securities	7,174	1,563,441	7,174	1,567,486
Increase in cash surrender value	125,380	126,344	257,680	255,944
Gain from redemption of life insurance	389,119		389,119	
Other income	151,035	132,316	276,162	252,005
Total non-interest income	2,451,322	3,684,527	4,474,232	5,817,660
Non-interest expense:				
Salaries and employee benefits	3,395,090	3,398,188	6,771,387	6,810,463
Net occupancy	655,236	544,121	1,269,170	1,068,898
Equipment rentals, depreciation and maintenance	951,812	951,312	1,822,212	1,886,765
FDIC assessments	437,086	390,517	842,912	740,904
Other expense	1,535,141	1,402,857	3,224,909	3,109,245
Total non-interest expense	6,974,365	6,686,995	13,930,590	13,616,275
Income before income taxes	617,873	1,968,082	905,417	3,014,537
Income tax expense (benefit)	(192,000)	522,000	(342,000)	697,000
Net income	\$ 809,873	\$ 1,446,082	\$ 1,247,417	\$ 2,317,537
Basic and diluted earnings per share	\$.16	\$.28	\$.24	\$.45

See accompanying notes to consolidated financial statements.

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Peoples Financial Corporation and Subsidiaries
Consolidated Statement of Changes in Shareholders Equity and Comprehensive Income

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance, January 1, 2011	5,151,139	\$ 5,151,139	\$ 65,780,254	\$ 33,302,381	\$ (2,876,912)		\$ 101,356,862
Comprehensive income:							
Net income				1,247,417		\$ 1,247,417	1,247,417
Net unrealized gain on available for sale securities, net of tax					4,302,818	4,302,818	4,302,818
Reclassification adjustment for available for sale securities called or sold in current year, net of tax					(4,735)	(4,735)	(4,735)
Total comprehensive income						\$ 5,545,500	
Dividend declared (\$.09 per share)				(462,323)			(462,323)
Retirement of stock	(14,221)	(14,221)		(178,339)			(192,560)
Balance, June 30, 2011	5,136,918	\$ 5,136,918	\$ 65,780,254	\$ 33,909,136	\$ 1,421,171		\$ 106,247,479

Note: Balances as of January 1, 2011 were audited.
See accompanying notes to consolidated financial statements.

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**Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)**

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 1,247,417	\$ 2,317,537
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	1,176,000	1,218,000
Provision for allowance for loan losses	1,187,000	2,735,000
Loss on writedown of other real estate	124,606	77,350
Loss on sales of other real estate	25,291	39,350
Loss on other investments	82,916	15,550
Gain on sales and calls of securities	(7,174)	(1,567,486)
Accretion of held to maturity securities	(1,444)	(1,413)
Change in accrued interest receivable	(239,584)	625,954
Change in other assets	2,605,373	15,556
Change in other liabilities	80,850	20,596,976
Net cash provided by operating activities	\$ 6,281,251	\$ 26,072,374

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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued) (unaudited)

	Six Months Ended June 30,	
	2011	2010
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	\$ 78,710,848	\$ 147,206,124
Investment in available for sale securities	(104,646,484)	(173,037,295)
Proceeds from maturities of held to maturity securities		389,920
Redemption of Federal Home Loan Bank Stock	128,200	1,645,100
Proceeds from sales of other real estate	358,526	807,500
Loans, net change	12,457,729	17,045,947
Acquisition of premises and equipment	(272,904)	(172,932)
Investment in other assets	(125,021)	(325,325)
Net cash used in investing activities	(13,389,106)	(6,440,961)
Cash flows from financing activities:		
Demand and savings deposits, net change	25,664,495	20,461,290
Time deposits made, net change	(11,384,574)	28,392,369
Cash dividends	(462,323)	(515,170)
Retirement of common stock	(192,560)	
Borrowings from Federal Home Loan Bank	330,002,395	390,669,662
Repayments to Federal Home Loan Bank	(344,003,538)	(441,123,947)
Federal funds purchased and securities sold under agreements to repurchase, net change	28,942,450	(3,558,614)
Net cash provided by (used in) financing activities	28,566,345	(5,674,410)
Net increase in cash and cash equivalents	21,458,490	13,957,003

Cash and cash equivalents, beginning of period	24,146,939	29,155,294
Cash and cash equivalents, end of period	\$ 45,605,429	\$ 43,112,297

See accompanying notes to consolidated financial statements.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 2011 and 2010

1. Basis of Presentation:

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. Its two operating subsidiaries are The Peoples Bank, Biloxi, Mississippi (the Bank), and PFC Service Corp. Its principal subsidiary is The Peoples Bank, Biloxi, Mississippi, which provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in Harrison, Hancock, Stone and Jackson counties.

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of the Company and its subsidiaries as of June 30, 2011 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2010 Annual Report and Form 10-K.

The results of operations for the six months ended June 30, 2011, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies - The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in our Form 10-K for the year ended December 31, 2010.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,136,918 and 5,151,697 for the six months ended June 30, 2011 and 2010, respectively, and 5,136,918 and 5,151,697 for the quarters ended June 30, 2011 and 2010, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid \$1,811,218 and \$2,475,536 for the six months ended June 30, 2011 and 2010, respectively, for interest on deposits and borrowings. Income tax payments of \$235,000 and \$625,000 were made

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during the six months ended June 30, 2011 and 2010, respectively. Loans transferred to other real estate amounted to \$2,927,510 and \$799,800 during the six months ended June 30, 2011 and 2010, respectively. Dividends payable of \$462,323 as of December 31, 2010 were paid during the six months ended June 30, 2011.

4. Investments:

The amortized cost and fair value of securities at June 30, 2011 and December 31, 2010, are as follows:

Gross &n