

PEOPLES FINANCIAL CORP /MS/

Form 10-Q

May 07, 2010

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**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 March 31, 2010

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  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  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   
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

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 April 30, 2010, there were 15,000,000 shares of \$1 par value common stock authorized, with 5,151,697 shares issued and outstanding.



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**Peoples Financial Corporation and Subsidiaries**  
**Consolidated Statements of Condition**

	<b>March 31, 2010 (Unaudited)</b>	<b>December 31, 2009 (Audited)</b>
<b>Assets</b>		
Cash and due from banks	\$ 29,784,112	\$ 29,155,294
Available for sale securities	324,577,614	311,434,437
Held to maturity securities, fair value of \$3,367,129 at March 31, 2010; \$3,340,974 at December 31, 2009	3,202,642	3,201,966
Other investments	4,020,754	4,036,304
Federal Home Loan Bank Stock, at cost	5,017,300	5,015,900
Loans	448,873,921	464,976,291
Less: Allowance for loan losses	8,278,805	7,827,806
Loans, net	440,595,116	457,148,485
Bank premises and equipment, net of accumulated depreciation	30,874,831	31,418,884
Other real estate	1,750,963	1,521,313
Accrued interest receivable	5,065,405	4,646,752
Cash surrender value of life insurance	15,499,471	15,329,394
Prepaid FDIC assessments	4,645,561	4,958,309
Other assets	899,501	1,139,861
<b>Total assets</b>	<b>\$ 865,933,270</b>	<b>\$ 869,006,899</b>

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

	<b>March 31, 2010 (Unaudited)</b>	<b>December 31, 2009 (Audited)</b>
<b>Liabilities &amp; Shareholders Equity</b>		
<b>Liabilities:</b>		
Deposits:		
Demand, non-interest bearing	\$ 104,185,687	\$ 96,541,387
Savings and demand, interest bearing	226,104,682	206,167,484
Time, \$100,000 or more	146,480,345	117,347,663
Other time deposits	50,196,747	50,644,895
<b>Total deposits</b>	<b>526,967,461</b>	<b>470,701,429</b>
Federal funds purchased and securities sold under agreements to repurchase	154,391,650	174,430,877
Borrowings from Federal Home Loan Bank	62,798,701	104,270,452
Other liabilities	16,077,615	16,016,204
<b>Total liabilities</b>	<b>760,235,427</b>	<b>765,418,962</b>
<b>Shareholders Equity:</b>		
Common stock, \$1 par value, 15,000,000 shares authorized, 5,151,697 shares issued and outstanding at March 31, 2010 and December 31, 2009	5,151,697	5,151,697
Surplus	65,780,254	65,780,254
Undivided profits	33,724,801	32,853,346
Accumulated other comprehensive income (loss), net of tax	1,041,091	(197,360)
<b>Total shareholders equity</b>	<b>105,697,843</b>	<b>103,587,937</b>
<b>Total liabilities &amp; shareholders equity</b>	<b>\$ 865,933,270</b>	<b>\$ 869,006,899</b>

See selected notes to consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Interest income:</b>		
Interest and fees on loans	\$4,987,126	\$5,118,392
Interest and dividends on securities:		
U.S. Treasury	194,262	453,338
U.S. Government agencies	2,299,703	2,275,359
Mortgage-backed securities	386,876	404,153
States and political subdivisions	356,929	311,109
Other securities	4,451	4,941
Interest on federal funds sold	3,779	893
<b>Total interest income</b>	<b>8,233,126</b>	<b>8,568,185</b>
<b>Interest expense:</b>		
Deposits	817,489	1,556,698
Long-term borrowings	136,645	160,792
Federal funds purchased and securities sold under agreements to repurchase	286,390	576,352
<b>Total interest expense</b>	<b>1,240,524</b>	<b>2,293,842</b>
<b>Net interest income</b>	<b>6,992,602</b>	<b>6,274,343</b>
<b>Provision for allowance for losses on loans</b>	<b>1,150,000</b>	<b>348,000</b>
<b>Net interest income after provision for allowance for losses on loans</b>	<b>\$5,842,602</b>	<b>\$5,926,343</b>

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Non-interest income:</b>		
Trust department income and fees	\$ 307,296	\$ 336,266
Service charges on deposit accounts	1,572,503	1,663,307
Gain on liquidation, sale and calls of securities	4,045	136,797
Other income	249,289	486,051
<b>Total non-interest income</b>	<b>2,133,133</b>	<b>2,622,421</b>
<b>Non-interest expense:</b>		
Salaries and employee benefits	3,412,275	3,380,378
Net occupancy	524,777	551,861
Equipment rentals, depreciation and maintenance	935,453	950,367
FDIC assessments	350,387	79,923
Other expense	1,706,388	1,593,268
<b>Total non-interest expense</b>	<b>6,929,280</b>	<b>6,555,797</b>
<b>Income before income taxes</b>	<b>1,046,455</b>	<b>1,992,967</b>
Income taxes	175,000	290,000
<b>Net income</b>	<b>\$ 871,455</b>	<b>\$1,702,967</b>
<b>Basic and diluted earnings per share</b>	<b>\$ .17</b>	<b>\$ .33</b>

See selected notes to consolidated financial statements.



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**Peoples Financial Corporation and Subsidiaries**  
**Consolidated Statement of Shareholders Equity**

	Number of Common Shares	Common Stock	Surplus	Accumulated		Total
				Undivided Profits	Other Comprehensive Income	
Balance, Jan. 1, 2010	5,151,697	\$ 5,151,697	\$ 65,780,254	\$ 32,853,346	\$ (197,360)	\$ 103,587,937
Comprehensive Income:						
Net income				871,455		\$ 871,455
Net unrealized gain on available for sale securities, net of tax					1,235,781	1,235,781
Reclassification adjustment for available for sale securities called or sold in current year, net of tax					2,670	2,670
Total comprehensive income						\$ 2,109,906
Balance, Mar. 31, 2010	5,151,697	\$ 5,151,697	\$ 65,780,254	\$ 33,724,801	\$ 1,041,091	\$ 105,697,843

Note: Balances as of January 1, 2010 were audited.  
See selected notes to consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 871,455	\$ 1,702,967
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	609,000	598,500
Provision for allowance for loan losses	1,150,000	348,000
Loss on writedown of other real estate	77,350	
Loss on sales of other real estate	13,000	
(Gain) loss on other investments	15,550	(110,338)
Gain on sales and calls of securities	(4,045)	(136,797)
Change in accrued interest receivable	(418,653)	943,272
Change in other assets	228,188	857,280
Change in other liabilities	261,581	(245,657)
<b>Net cash provided by operating activities</b>	<b>2,803,426</b>	<b>3,957,227</b>
<b>Cash flows from investing activities:</b>		
Proceeds from maturities, sales and calls of available for sale securities	45,824,384	97,023,145
Investment in available for sale securities	(57,083,465)	(101,694,947)
Investment in held to maturity securities	(676)	(643)
Investment in Federal Home Loan Bank Stock	(1,400)	(203,900)
Proceeds from sales of other real estate	310,000	105,000
Loans, net change	14,773,369	(9,756,074)
Acquisition of premises and equipment	(64,947)	(107,649)
Other assets	(171,757)	(156,145)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 3,585,508</b>	<b>\$ (14,791,213)</b>

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from financing activities:</b>		
Demand and savings deposits, net change	\$ 27,581,497	\$ 1,973,939
Time deposits, net change	28,684,535	33,733,209
Cash dividends	(515,170)	(1,583,780)
Retirement of common stock		(2,050,478)
Borrowings from Federal Home Loan Bank	268,571,965	65,000,000
Repayments to Federal Home Loan Bank	(310,043,716)	(85,040,228)
Federal funds purchased and securities sold under agreements to repurchase, net change	(20,039,227)	1,299,704
<b>Net cash provided by (used in) financing activities</b>	<b>(5,760,116)</b>	<b>13,332,366</b>
<b>Net increase in cash and cash equivalents</b>	<b>628,818</b>	<b>2,498,380</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>29,155,294</b>	<b>34,019,590</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 29,784,112</b>	<b>\$ 36,517,970</b>

See selected notes to consolidated financial statements.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES  
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Quarters Ended March 31, 2010 and 2009

1. Basis of Presentation:

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 Peoples Financial Corporation and its subsidiaries (the Company ) as of March 31, 2010 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 2009 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2010, 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, 2009.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,151,697 and 5,221,950 for the quarters ended March 31, 2010 and 2009, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid \$1,229,166 and \$2,318,605 for the quarters ended March 31, 2010 and 2009, respectively, for interest on deposits and borrowings. Income tax payments of \$100,000 were made during the quarter ended March 31, 2010 and no income tax payments were made during the quarter ended March 31, 2009. Loans transferred to other real estate amounted to \$630,000 and \$522,590 during the quarters ended March 31, 2010 and 2009, respectively.

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## 4. Investments:

The amortized cost and estimated fair value of securities at March 31, 2010 and December 31, 2009, respectively, were as follows:

March 31, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale securities:				
Debt securities:				
U.S. Treasury	\$ 31,990,207	\$ 584,222	\$ (89)	\$ 32,574,340
U.S. Government agencies	222,532,397	801,014	(1,211,139)	222,122,272
Mortgage-backed securities	27,444,047	1,278,267	(18,260)	28,704,054
States and political subdivisions	39,083,014	1,700,724	(256,773)	40,526,965
Total debt securities	321,049,665	4,364,227	(1,486,261)	323,927,631
Equity securities	649,983			649,983
Total available for sale securities	\$321,699,648	\$4,364,227	\$(1,486,261)	\$324,577,614
Held to maturity securities:				
States and political subdivisions	\$ 3,202,642	\$ 164,487	\$	\$ 3,367,129
Total held to maturity securities	\$ 3,202,642	\$ 164,487	\$	\$ 3,367,129

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December 31, 2009	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale securities:				
Debt securities:				
U.S. Treasury	\$ 23,987,222	\$ 752,918	\$	\$ 24,740,140
U.S. Government agencies	216,473,270	695,213	(2,590,287)	214,578,196
Mortgage-backed securities	30,035,546	1,278,310	(51,186)	31,262,670
States and political subdivisions	39,290,502	1,179,412	(266,466)	40,203,448
Total debt securities	309,786,540	3,905,853	(2,907,939)	310,784,454
Equity securities	649,983			649,983
Total available for sale securities	\$ 310,436,523	\$ 3,905,853	\$ (2,907,939)	\$ 311,434,437
Held to maturity securities:				
States and political subdivisions	\$ 3,201,966	\$ 139,008	\$	\$ 3,340,974
Total held to maturity securities	\$ 3,201,966	\$ 139,008	\$	\$ 3,340,974

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy as of March 31, 2010 and December 31, 2009 were as follows:

	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
March 31, 2010	\$ 324,577,614		\$ 324,577,614	
December 31, 2009	311,434,437		311,434,437	

At March 31, 2010, available for sale securities with an amortized cost of \$321,699,648 were reported at a fair value, net of unrealized gains and losses, of \$324,577,614. The net change in unrealized gains and losses of \$1,238,451 was included in comprehensive income during the first quarter of 2010. At December 31, 2009, available for sale securities with an amortized cost of \$310,436,524 were reported at a fair value, net of unrealized gains and losses, of \$311,434,437. The net change in unrealized gains and losses of \$(2,867,464) was included in comprehensive income during the year ended December 31, 2009.



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The amortized cost and estimated fair value of debt securities at March 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Estimated fair value
Available for sale securities:		
Due in one year or less	\$ 27,330,766	\$ 27,478,157
Due after one year through five years	80,401,107	81,304,499
Due after five years through ten years	61,826,297	62,415,502
Due after ten years	124,047,448	124,025,420
Mortgage-backed securities	27,444,047	28,704,053
Totals	\$321,049,665	\$323,927,631
Held to maturity securities:		
Due in one year or less	\$ 304,983	\$ 306,544
Due after one year through five years	1,901,215	2,021,822
Due after five years through ten years	996,444	1,038,763
Totals	\$ 3,202,642	\$ 3,367,129

Securities with gross unrealized losses at March 31, 2010 and December 31, 2009, respectively, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
March 31, 2010:						
U.S. Treasury	\$ 9,999,900	\$ 89	\$	\$	\$ 9,999,900	\$ 89
U.S. Government Agencies	111,543,171	1,078,339	9,867,200	132,800	121,410,371	1,211,139
Mortgage-backed Securities	4,843,011	18,260				