

PEOPLES FINANCIAL CORP /MS/

Form 10-Q

August 09, 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 **June 30, 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 July 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

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Assets	\$ 43,112,297	\$ 29,155,294
Cash and due from banks		
Available for sale securities	341,083,476	311,434,437
Held to maturity securities, fair value of \$2,956,033 at June 30, 2010; \$3,340,974 at December 31, 2009	2,813,459	3,201,966
Other investments	4,020,754	4,036,304
Federal Home Loan Bank Stock, at cost	3,370,800	5,015,900
Loans	445,735,665	464,976,291
Less: Allowance for loan losses	9,167,927	7,827,806
Loans, net	436,567,738	457,148,485
Bank premises and equipment, net of accumulated depreciation	30,373,816	31,418,884
Other real estate	1,396,913	1,521,313
Accrued interest receivable	4,020,798	4,646,752
Cash surrender value of life insurance	15,653,219	15,329,394
Prepaid FDIC assessments	4,326,024	4,958,309
Other assets	1,759,991	1,139,861
Total assets	\$ 888,499,285	\$ 869,006,899

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

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Liabilities & Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$ 116,673,172	\$ 96,541,387
Savings and demand, interest bearing	206,496,989	206,167,484
Time, \$100,000 or more	145,870,422	117,347,663
Other time deposits	50,514,505	50,644,895
Total deposits	519,555,088	470,701,429
Federal funds purchased and securities sold under agreements to repurchase	170,872,263	174,430,877
Borrowings from Federal Home Loan Bank	53,816,167	104,270,452
Other liabilities	37,433,697	16,016,204
Total liabilities	781,677,215	765,418,962
Shareholders Equity:		
Common stock, \$1 par value, 15,000,000 shares authorized, 5,151,697 shares issued and outstanding at June 30, 2010 and December 31, 2009	5,151,697	5,151,697
Surplus	65,780,254	65,780,254
Undivided profits	34,604,196	32,853,346
Accumulated other comprehensive income (loss), net of tax	1,285,923	(197,360)
Total shareholders equity	106,822,070	103,587,937
Total liabilities & shareholders equity	\$ 888,499,285	\$ 869,006,899

See selected notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended June 30,	
	June 30,		2010	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans	\$4,893,342	\$5,086,063	\$ 9,880,468	\$10,204,455
Interest and dividends on securities:				
U.S. Treasury	131,216	322,981	325,478	776,319
U.S. Government agencies	2,312,723	2,494,405	4,612,426	4,769,764
Mortgage-backed securities	132,048	387,501	518,924	791,654
States and political subdivisions	316,668	301,314	673,597	612,423
Other investments	3,203	1,953	7,654	6,894
Interest on federal funds sold	1,557	544	5,336	1,437
Total interest income	7,790,757	8,594,761	16,023,883	17,162,946
Interest expense:				
Deposits	849,297	1,396,989	1,666,786	2,953,687
Long-term borrowings	109,559	110,985	246,204	271,777
Federal funds purchased and securities sold under agreements to repurchase	276,351	517,320	562,741	1,093,672
Total interest expense	1,235,207	2,025,294	2,475,731	4,319,136
Net interest income	6,555,550	6,569,467	13,548,152	12,843,810
Provision for allowance for losses on loans	1,585,000	1,502,000	2,735,000	1,850,000

**Net interest income after
provision for allowance for losses
on loans**

\$4,970,550

\$5,067,467

\$10,813,152

\$10,993,810

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

	Three Months Ended		Six Months Ended June 30,	
	June 30,		2010	2009
	2010	2009		
Non-interest income:				
Trust department income and fees	\$ 282,941	\$ 325,750	\$ 590,237	\$ 662,016
Service charges on deposit accounts	1,579,485	1,702,090	3,151,988	3,365,397
Gain on sales or calls of securities	1,563,441	2	1,567,486	136,799
Other income	258,660	138,534	507,949	624,585
Total non-interest income	3,684,527	2,166,376	5,817,660	4,788,797
Non-interest expense:				
Salaries and employee benefits	3,398,188	3,694,321	6,810,463	7,074,699
Net occupancy	544,121	641,242	1,068,898	1,193,103
Equipment rentals, depreciation and maintenance	951,312	954,189	1,886,765	1,904,556
FDIC assessments	390,517	544,516	740,904	624,439
Other expense	1,402,857	1,248,868	3,109,245	2,842,136
Total non-interest expense	6,686,995	7,083,136	13,616,275	13,638,933
Income before income taxes	1,968,082	150,707	3,014,537	2,143,674
Income taxes	522,000	(50,000)	697,000	240,000
Net income	\$1,446,082	\$ 200,707	\$ 2,317,537	\$ 1,903,674

Basic and diluted earnings per share	\$.28	\$.04	\$.45	\$.37
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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	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance, January 1, 2010	5,151,697	\$ 5,151,697	\$ 65,780,254	\$ 32,853,346	\$ (197,360)		\$ 103,587,937
Comprehensive Income:							
Net income				2,317,537		\$ 2,317,537	2,317,537
Net unrealized gain on available for sale securities, net of tax					2,517,824	2,517,824	2,517,824
Reclassification adjustment for available for sale securities called or sold in current year, net of tax					(1,034,541)	(1,034,541)	(1,034,541)
Total comprehensive gain						\$ 3,800,820	
Dividend declared, (\$.11 per share)				(566,687)			(566,687)
Balance, June 30, 2010	5,151,697	\$ 5,151,697	\$ 65,780,254	\$ 34,604,196	\$ 1,285,923		\$ 106,822,070

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)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 2,317,537	\$ 1,903,674
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	1,218,000	1,212,000
Provision for allowance for loan losses	2,735,000	1,850,000
Loss on writedown of other real estate	77,350	
Loss on sales of other real estate	39,350	
(Gain) loss on other investments	15,550	(110,338)
Gain on sales and calls of securities	(1,567,486)	(136,799)
Loss on impairment of equity securities		149,517
Change in accrued interest receivable	625,954	450,450
Change in other assets	15,556	100,299
Change in other liabilities	20,596,976	1,504,614
Net cash provided by operating activities	26,073,787	6,923,417
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	147,206,124	145,473,727
Investment in available for sale securities	(173,037,295)	(190,412,284)
Proceeds from maturities of held to maturity securities	389,920	195,000
Investment in held to maturity securities	(1,413)	(1,352)
(Investment in) redemption of Federal Home Loan Bank Stock	1,645,100	(1,452,200)
Proceeds from sales of other real estate	807,500	326,076
Loans, net change	17,045,947	(5,337,134)
Acquisition of premises and equipment	(172,932)	(261,131)
Other assets	(325,325)	(339,903)
Net cash used in investing activities	\$ (6,442,374)	\$ (51,809,201)

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from financing activities:		
Demand and savings deposits, net change	\$ 20,461,290	\$ (40,653,986)
Time deposits, net change	28,392,369	48,472,013
Cash dividends	(515,170)	(1,583,780)
Retirement of common stock		(2,366,559)
Borrowings from Federal Home Loan Bank	390,669,662	136,000,000
Repayments to Federal Home Loan Bank	(441,123,947)	(100,080,551)
Federal funds purchased and securities sold under agreements to repurchase, net change	(3,558,614)	10,361,740
Net cash provided by (used in) financing activities	(5,674,410)	50,148,877
Net increase in cash and cash equivalents	13,957,003	5,263,093
Cash and cash equivalents, beginning of year	29,155,294	34,019,590
Cash and cash equivalents, end of year	\$ 43,112,297	\$ 39,282,683
See selected notes to consolidated financial statements.		

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 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, the financial position of Peoples Financial Corporation and its subsidiaries (the Company) as of June 30, 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 six months ended June 30, 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 5,189,474 for the six months ended June 30, 2010 and 2009, respectively, and 5,151,697 and 5,157,356 for the quarters ended June 30, 2010 and 2009, respectively.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents to include cash and due from banks and federal funds sold. The Company paid \$2,475,536 and \$4,442,281 for the six months ended June 30, 2010 and 2009, respectively, for interest on deposits and borrowings. Income tax payments of \$625,000 and \$520,000 were made during the six months ended June 30, 2010 and 2009, respectively. Loans in the amount of \$799,800 and \$2,383,363 were transferred to other real estate during the six months ended June 30, 2010 and 2009, respectively.

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4. Investments:

The amortized cost and estimated fair value of securities at June 30, 2010 and December 31, 2009, respectively, were as follows:

June 30, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for sale securities:				
Debt securities:				
U.S. Treasury	\$ 62,980,917	\$ 110,221	\$ (58)	\$ 63,091,080
U.S. Government agencies	235,197,987	2,197,267		237,395,254
States and political subdivisions	39,006,292	1,208,332	(267,465)	39,947,159
Total debt securities				