

PEOPLES FINANCIAL CORP /MS/

Form 10-Q

May 08, 2009

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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, 2009

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

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, 2009, there were 15,000,000 shares of \$1 par value common stock authorized, and 5,170,408 shares issued and outstanding.

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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Condition

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
Assets		
Cash and due from banks	\$ 36,517,970	\$ 34,015,590
Federal funds sold		4,000
Available for sale securities	343,533,105	340,462,072
Held to maturity securities, fair value of \$3,513,172 at March 31, 2009 and \$3,438,108 at December 31, 2008	3,394,855	3,394,212
Other investments	3,999,662	3,889,324
Federal Home Loan Bank Stock, at cost	2,274,600	2,070,700
Loans	476,521,814	467,377,039
Less: Allowance for loan losses	11,372,866	11,113,575
Loans, net	465,148,948	456,263,464
Bank premises and equipment, net of accumulated depreciation	33,109,319	33,600,170
Accrued interest receivable	4,501,495	5,444,767
Cash surrender value of life insurance	14,856,437	14,688,160
Other assets	3,080,480	2,575,042
Total assets	\$ 910,416,871	\$ 896,407,501

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

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
Liabilities & Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	\$ 114,982,464	\$ 109,033,184
Savings and demand, interest bearing	236,014,897	239,990,238
Time, \$100,000 or more	140,484,281	104,540,112
Other time deposits	54,701,042	56,912,002
Total deposits	546,182,684	510,475,536
Federal funds purchased and securities sold under agreements to repurchase	227,908,935	226,609,231
Borrowings from Federal Home Loan Bank	16,897,458	36,937,686
Other liabilities	13,920,667	15,384,934
Total liabilities	804,909,744	789,407,387
Shareholders Equity:		
Common stock, \$1 par value, 15,000,000 shares authorized, 5,170,408 and 5,279,268 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	5,170,408	5,279,268
Surplus	65,780,254	65,780,254
Undivided profits	33,174,035	33,412,596
Accumulated other comprehensive income, net of tax	1,382,430	2,527,996
Total shareholders equity	105,507,127	107,000,114

Total liabilities & shareholders equity	\$ 910,416,871	\$ 896,407,501
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See selected notes to consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2009	2008
Interest income:		
Interest and fees on loans	\$ 5,118,392	\$ 7,432,345
Interest and dividends on securities:		
U. S. Treasury	453,338	813,940
U.S. Government agencies	2,275,359	3,013,487
Mortgage-backed securities	404,153	461,372
States and political subdivisions	311,109	260,050
Other securities	4,941	62,917
Interest on federal funds sold	893	36,812
Total interest income	8,568,185	12,080,923
Interest expense:		
Deposits	1,556,698	3,219,012
Long-term borrowings	160,792	122,234
Federal funds purchased and securities sold under agreements to repurchase	576,352	1,538,394
Total interest expense	2,293,842	4,879,640
Net interest income	6,274,343	7,201,283
Provision for allowance for losses on loans	348,000	46,000
Net interest income after provision for allowance for losses on loans	\$ 5,926,343	\$ 7,155,283

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

	Three Months Ended March	
	2009	31, 2008
Non-interest income:		
Trust department income and fees	\$ 336,266	\$ 395,090
Service charges on deposit accounts	1,663,307	1,692,460
Gain on liquidation, sales and calls of securities	136,797	87,648
Other income	486,051	362,594
Total non-interest income	2,622,421	2,537,792
Non-interest expense:		
Salaries and employee benefits	3,380,378	3,465,398
Net occupancy	551,861	539,825
Equipment rentals, depreciation and maintenance	950,367	922,053
Other expense	1,673,191	1,637,399
Total non-interest expense	6,555,797	6,564,675
Income before income taxes	1,992,967	3,128,400
Income taxes	290,000	1,039,000
Net Income	\$ 1,702,967	\$ 2,089,400
Basic and diluted earnings per share	\$.33	\$.39

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	Comprehensive Income	Total
Balance, January 1, 2009	5,279,268	\$ 5,279,268	\$ 65,780,254	\$ 33,412,596	\$ 2,527,996		\$ 107,000,114
Comprehensive Income:							
Net income				1,702,967		\$ 1,702,967	1,702,967
Net unrealized loss on available for sale securities, net of tax					(1,055,280)	(1,055,280)	(1,055,280)
Reclassification adjustment for available for sale securities called or sold in current year, net of tax					(90,286)	(90,286)	(90,286)
Total comprehensive income						\$ 557,401	
Effect of stock retirement on accrued dividends				90			90
Retirement of stock	(108,860)	(108,860)		(1,941,618)			(2,050,478)
Balance, March 31, 2009	5,170,408	\$ 5,170,408	\$ 65,780,254	\$ 33,174,035	\$ 1,382,430		\$ 105,507,127

Note: Balances as of January 1, 2009 were audited.

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

	Three Months Ended March 31,	2009	2008
Cash flows from operating activities:			
Net income	\$	1,702,967	\$ 2,089,400
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation		598,500	532,507
Provision for allowance for loan losses		348,000	46,000
Gain on other investments		(110,338)	
Gain on sales and calls of securities		(136,797)	(87,648)
Change in accrued interest receivable		943,272	1,422,645
Change in other assets		857,280	(202,582)
Change in other liabilities		(245,657)	1,235,176
Net cash provided by operating activities		3,957,227	5,035,498
Cash flows from investing activities:			
Proceeds from maturities, sales and calls of available for sale securities		97,023,145	106,316,319
Investment in available for sale securities		(101,694,947)	(65,801,648)
Proceeds from maturities of held to maturity securities			455,000
Investment in held to maturity securities		(643)	(1,693)
(Investment in) redemption of Federal Home Loan Bank Stock		(203,900)	18,700
Proceeds from sales of other real estate		105,000	
Loans, net increase		(9,756,074)	(5,780,843)
Acquisition of premises and equipment		(107,649)	(1,340,490)
Other assets		(156,145)	(267,994)

Net cash provided by (used in) investing activities	\$ (14,791,213)	\$ 33,597,351
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Peoples Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
(Unaudited)

	Three Months Ended March	
	31,	
	2009	2008
Cash flows from financing activities:		
Demand and savings deposits, net change	\$ 1,973,939	\$ 25,035,338
Time deposits, net change	33,733,209	(24,534,148)
Cash dividends	(1,583,780)	(1,457,587)
Retirement of common stock	(2,050,478)	(514,449)
Borrowings from Federal Home Loan Bank	65,000,000	10,000,000
Repayments to Federal Home Loan Bank	(85,040,228)	(10,041,017)
Federal funds purchased and securities sold under agreements to repurchase, net change	1,299,704	(35,069,061)
Net cash provided by (used in) financing activities	13,332,366	(36,580,924)
Net increase in cash and cash equivalents	2,498,380	2,051,925
Cash and cash equivalents, beginning of year	34,019,590	34,935,370
Cash and cash equivalents, end of year	\$ 36,517,970	\$ 36,987,295

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, 2009 and 2008

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 March 31, 2009 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 2008 Annual Report and Form 10-K.

The results of operations for the quarter ended March 31, 2009, 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, 2008.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,221,950 and 5,396,898 for the quarters ended March 31, 2009 and 2008, 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 \$2,318,605 and \$5,284,077 for the quarter ended March 31, 2009 and 2008, respectively, for interest on deposits and borrowings. No income tax payments were made during the quarters ended March 31, 2009 and 2008. Loans transferred to other real estate amounted to \$522,590 during the quarter ended March 31, 2009 and there were no loans transferred to other real estate during the quarter ended March 31, 2008.

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4. Investments:

Securities with gross unrealized losses at March 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows (in 000 s):

	Less Than Twelve Months	Gross	Over Twelve Months	Gross	Total	Gross
	Fair Value	Unrealized	Fair Value	Unrealized	Fair Value	Unrealized
		Loss		Loss		Loss
U.S. Government Agencies	\$89,100	\$ 954	\$	\$	\$ 89,100	\$ 954
States and political subdivisions	10,258	359	1,826	156	12,084	515
TOTAL	\$99,358	\$1,313	\$1,826	\$156	\$101,184	\$1,469

Management evaluates securities for other-than-temporary impairment on a monthly basis. In performing this evaluation, the length of time and the extent to which the fair value has been less than cost and the fact that the Company's securities are primarily issued by U.S. Government Agencies are considered. In addition, the Company assesses the cause of the decline in value and the intent and ability of the Company to hold these securities until maturity. While some available for sale securities have been sold for liquidity purposes, the Company has traditionally held its securities, including those classified as available for sale, until maturity. As a result of this evaluation, the Company has determined that the declines summarized in the table above are not deemed to be other-than-temporary. 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, 2009 and December 31, 2008 were as follows:

	Total	Fair Value Measurement Using		Level 3
		Level 1	Level 2	
March 31, 2009	\$343,533,105		\$343,533,105	
December 31, 2008	340,462,072		340,462,072	

At March 31, 2009, available for sale securities with an amortized cost of \$339,925,836 were reported at a fair value, net of unrealized gains and losses, of \$343,533,105. The net change in unrealized gains and losses of \$(1,145,566) was included in comprehensive income during the first quarter of 2009. At December 31, 2008, available for sale securities with an amortized cost of \$335,117,237 were reported at a fair value, net of unrealized gains and losses, of \$340,460,072. The net change in unrealized gains and losses of \$2,439,567 was included in comprehensive income during the year ended December 31, 2008.

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Loans past due ninety days or more and still accruing were \$6,733,659 and \$2,340,190 at March 31, 2009 and December 31, 2008, respectively.

Impaired loans include performing and non-performing loans for which full payment of principal or interest is not expected. Performing loans which were classified as impaired loans totaled \$10,554,541 and \$11,864,285 at March 31, 2009 and December 31, 2008, respectively. Non-performing loans which were classified as impaired loans included nonaccrual loans which amounted to \$17,211,109 and \$15,553,447 at March 31, 2009 and December 31, 2008, respectively.

The average recorded investment in impaired loans amounted to approximately \$27,818,363 and \$28,189,747 at March 31, 2009 and December 31, 2008, respectively. The Company had \$7,291,482 and \$7,345,022 of specific allowance related to impaired loans at March 31, 2009 and December 31, 2008, respectively. Interest income recognized on impaired loans was \$94,324 and \$833,055 during the quarter ended March 31, 2009 and the year ended December 31, 2008, respectively. Interest income recognized on impaired loans if the Company had used the cash-basis method of accounting would have been \$100,751 and \$686,129 during the quarter ended March 31, 2009 and the year ended December 31, 2008, respectively.

An allowance for each impaired loan, which are generally collateral-dependent, is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. Accordingly, the Company's impaired loans are reported at their estimated fair value on a non-recurring basis.

The balances of impaired loans, which are the only assets measured at fair value on a non-recurring basis, by level within the fair value hierarchy as of March 31, 2009 and December 31, 2008 were as follows:

	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
March 31, 2009	\$20,474,168		\$20,474,168	
December 31, 2008	20,072,210		20,072,210	

At March 31, 2009, impaired loans with a carrying amount of \$27,765,650 were written down to their fair value of \$20,474,168, through a \$7,291,482 charge to the provision for loan losses in prior periods. At December 31, 2008, impaired loans with a carrying amount of \$27,417,732 were written down to their fair value of \$20,072,210, through a \$7,345,022 charge to the provision for loan losses in prior periods.

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6. Allowance for Loan Losses:

Transactions in the allowance for loan losses were as follows: