PEOPLES FINANCIAL CORP /MS/
Form 10-Q
November 09, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

or

o **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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one:)

Large Accelerated filer o Accelerated filer þ Non-Accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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 October 31, 2007, there were 15,000,000 shares of $1 par value common stock authorized, and 5,431,444 shares issued and outstanding.

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PART I
FINANCIAL INFORMATION
PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

September 30, December 31, and September 30,	(Unaudited) 2007	(Audited) 2006	(Unaudited) 2006
Assets			
Cash and due from banks	$ 35,630,906	$ 37,793,493	$ 64,824,795
Federal funds sold	6,454,000	6,400,000	6,442,000
Held to maturity securities, market value of $8,640,000 - September 30, 2007; $85,519,000 - December 31, 2006; $107,754,000 - September 30, 2006	8,628,186	85,574,260	107,845,418
Available for sale securities, at market value	394,940,089	397,207,489	373,505,852
Federal Home Loan Bank stock, at cost	921,100	1,128,500	1,115,100
Loans	449,998,171	401,194,010	403,182,940
Less: Allowance for loan losses	9,459,090	10,841,367	10,928,307
Loans, net	440,539,081	390,352,643	392,254,633
Bank premises and equipment, net of accumulated depreciation	27,429,772	19,658,585	18,148,828
Accrued interest receivable	6,835,859	8,142,230	7,449,079
Other assets	19,325,221	17,765,868	19,129,164
Total assets	$ 940,704,214	$ 964,023,068	$ 990,714,869

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION (Continued)

September 30, December 31, and September 30,	(Unaudited) 2007	(Audited) 2006	(Unaudited) 2006
Liabilities & Shareholders Equity			
Liabilities:			
Deposits:			
Demand, non-interest bearing	$ 137,663,897	$ 148,455,754	$ 173,023,256
Savings and demand, interest bearing	242,180,702	271,331,272	298,054,632
Time, $100,000 or more	171,903,684	132,846,509	131,172,939
Other time deposits	58,002,480	60,536,259	61,279,315
Total deposits	609,750,763	613,169,794	663,530,142
Federal funds purchased and securities sold under agreements to repurchase	207,974,079	226,032,370	212,157,926
Borrowings from Federal Home Loan Bank	7,141,740	7,267,349	10,609,371
Other liabilities	12,821,013	19,320,860	9,489,636
Total liabilities	837,687,595	865,790,373	895,787,075
Shareholders Equity:			
Common Stock, $1 par value, 15,000,000 shares authorized, 5,433,808, 5,548,199 and 5,548,199 shares issued and outstanding at September 30, 2007, December 31, 2006 and September 30, 2006, respectively	5,433,808	5,548,199	5,548,199
Surplus	65,780,254	65,780,254	65,780,254
Undivided profits	33,267,571	29,253,825	25,536,642
Accumulated other comprehensive loss, net of tax	(1,465,014)	(2,349,583)	(1,937,301)
Total shareholders equity	103,016,619	98,232,695	94,927,794
Total liabilities and shareholders equity	$ 940,704,214	$ 964,023,068	$ 990,714,869

See Selected Notes to Consolidated Financial Statements.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Quarters Ended September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	$ 8,919,024	$ 7,847,283	$ 25,131,638	$ 20,901,766
Interest and dividends on investments:				
U. S. Treasury	965,272	1,127,800	3,432,861	4,451,151
U. S. Government agencies and corporations	3,723,883	3,717,040	12,140,300	8,250,066
States and political subdivisions	229,574	216,430	686,689	633,821
Other investments	390,273	21,730	830,041	147,549
Interest on federal funds sold	107,931	220,691	189,642	760,047
Total interest income	14,335,957	13,150,974	42,411,171	35,144,400
Interest expense:				
Deposits	3,862,267	3,138,781	11,093,430	7,976,709
Borrowings from Federal Home Loan Bank	138,604	120,014	418,451	362,405
Federal funds purchased and securities sold under agreements to repurchase	2,474,717	2,285,413	8,044,886	4,186,418
Total interest expense	6,475,588	5,544,208	19,556,767	12,525,532
Net interest income	7,860,369	7,606,766	22,854,404	22,618,868
Provision for allowance for losses on loans	(1,197,000)	48,000	(1,097,000)	125,000
Net interest income after provision for allowance for losses on loans	$ 9,057,369	$ 7,558,766	$ 23,951,404	$ 22,493,868

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)
(Unaudited)

	For the Quarters Ended September 30, 2007	2006	For the Nine Months Ended September 30, 2007	2006
Other operating income:				
Trust department income and fees	$ 495,172	$ 498,627	$ 1,393,417	$ 1,228,865
Service charges on deposit accounts	1,710,913	1,391,013	5,014,671	3,696,281
Gain (loss) on sale of securities	4,688		(614,327)	
Other income	293,266	418,227	1,321,953	1,201,212
Total other operating income	2,504,039	2,307,867	7,115,714	6,126,358
Other operating expenses:				
Salaries and employee benefits	3,743,041	3,295,811	10,608,272	9,434,025
Net occupancy	524,162	370,838	1,443,656	1,476,070
Equipment rentals, depreciation and maintenance	810,879	726,905	2,429,454	2,077,174
Other expense	1,508,815	1,358,319	4,411,652	3,718,326
Total other operating expenses	6,586,897	5,751,873	18,893,034	16,705,595
Income before income taxes	4,974,511	4,114,760	12,174,084	11,914,631
Income taxes	1,580,000	1,430,000	4,078,000	4,140,000
Net income	$ 3,394,511	$ 2,684,760	$ 8,096,084	$ 7,774,631
Basic and diluted earnings per share	$ .62	$ .48	$ 1.47	$ 1.40

See Selected Notes to Consolidated Financial Statements.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	# of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Compre-hensive Income	Comprehen-sive Income	Total
Balance, January 1, 2006	5,549,128	$ 5,549,128	$ 65,780,254	$ 18,942,855	$ (2,769,106)		$ 87,503,131
Comprehensive Income:							
Net income				7,774,631		$ 7,774,631	7,774,631
Net unrealized gain on available for sale securities, net of tax					831,805	831,805	831,805
Total comprehensive income						$ 8,606,436	
Retirement of common stock	(929)	(929)		(15,722)			(16,651)
Dividend declared ($ .21 per share)				(1,165,122)			(1,165,122)
Balance, September 30, 2006	5,548,199	$ 5,548,199	$ 65,780,254	$ 25,536,642	$ (1,937,301)		$ 94,927,794

Note: Balances as of January 1, 2006 were audited.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Continued)

	# of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Compre-hensive Income	Comprehen-sive Income	Total
Balance, January 1, 2007	5,548,199	$ 5,548,199	$ 65,780,254	$ 29,253,825	$ (2,349,583)		$ 98,232,695
Comprehensive Income:							
Net income				8,096,084		$ 8,096,084	8,096,084
Net unrealized gain on available for sale securities, net of tax					787,694	787,694	787,694
Reclassification adjustment for available for sale securities called or sold in the current year, net of tax					96,875	96,875	96,875
Total comprehensive income						$ 8,980,653	
Retirement of common stock	(114,391)	(114,391)		(2,703,393)			(2,817,784)
Dividend declared ($ .25 per share)				(1,378,945)			(1,378,945)
Balance, September 30, 2007	5,433,808	$ 5,433,808	$ 65,780,254	$ 33,267,571	$ (1,465,014)		$ 103,016,619

Note: Balances as of January 1, 2007 were audited.
See Selected Notes to Consolidated Financial Statements.

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Nine Months Ended September 30,	2007	2006
Cash flows from operating activities:		
Net income	$ 8,096,084	$ 7,774,631
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,385,000	1,177,000
Provision for allowance for losses on loans	(1,097,000)	125,000
Provision for losses on other real estate		3,129
Gain on sale of bank premises	(192,200)	(159,669)
Gain on sales of other real estate	(10,470)	(150,000)
Loss on sales of securities	614,327	
Changes in assets and liabilities:		
Accrued interest receivable	1,306,371	(3,133,721)
Other assets	(764,856)	(370,722)
Other liabilities	(5,928,288)	1,393,290
Net cash provided by operating activities	3,408,968	6,658,938
Cash flows from investing activities:		
Proceeds from maturities and calls of held to maturity securities	82,460,000	212,720,000
Proceeds from maturities, sales and calls of available for sale securities	137,413,444	18,250,292
Purchases of investments in held to maturity securities	(5,513,926)	(186,518,459)
Purchases of investments in available for sale securities	(134,426,587)	(212,094,319)
Purchases (sales) of investments in Federal Home Loan Bank	207,400	(38,500)
Loans, net increase	(49,108,938)	(54,040,715)
Acquisition of premises and equipment	(9,213,987)	(1,595,372)
Proceeds from sale of bank premises	250,000	317,120
Proceeds from sales of other real estate	55,000	238,000
Other assets	(564,215)	(416,457)
Net cash provided by (used in) investing activities	21,558,191	(223,178,410)

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PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

For the Nine Months Ended September 30,	2007	2006
Cash flows from financing activities:		
Demand and savings deposits, net decrease	$ (39,942,427)	$ (6,602,047)
Time deposits, net increase	36,523,396	77,914,847
Borrowings from Federal Home Loan Bank	45,800,375	17,240,727
Repayments to Federal Home Loan Bank	(45,925,984)	(13,983,361)
Retirement of common stock	(2,817,784)	(16,651)
Cash dividends	(2,655,031)	(2,274,948)
Federal funds purchased and securities sold under agreements to repurchase, net increase (decrease)	(18,058,291)	62,890,176
Net cash provided by (used in) financing activities	(27,075,746)	135,168,743
Net decrease in cash and cash equivalents	(2,108,587)	(81,350,729)
Cash and cash equivalents, beginning of period	44,193,493	152,617,524
Cash and cash equivalents, end of period	$ 42,084,906	$ 71,266,795

See Selected Notes to Consolidated Financial Statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2007 and 2006

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 the Company and its subsidiaries as of September 30, 2007 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 2006 Annual Report.

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.

The results of operations for the nine months ended September 30, 2007, are not necessarily indicative of the results to be expected for the full year.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,512,283 and 5,548,334 for the nine months ended September 30, 2007 and 2006, respectively, and 5,454,281 and 5,548,199 for the quarters ended September 30, 2007 and 2006, 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 $19,557,000 and $12,285,000 for the nine months ended September 30, 2007 and 2006, respectively, for interest on deposits and borrowings. Income tax payments of $4,194,000 and $4,001,000 were made during the nine months ended September 30, 2007 and 2006, respectively. Loans transferred to other real estate amounted to $20,000 and $41,000 during the nine months ended September 30, 2007 and 2006, respectively.

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4. Investments:
Securities with gross unrealized losses at September 30, 2007, 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		Over Twelve Months		Total	
	Fair Value	Gross Unreal- ized Loss	Fair Value	Gross Unreal- ized Loss	Fair Value	Gross Unreal- ized Loss
U. S. Treasury	$	$	$ 8,950	$ 45	$ 8,950	$ 45
U. S. Govt. Agencies	50,676	437	60,002	488	110,678	925
States and political subdivisions	7,146	168	8,460	200	15,606	368
Mortgage backed securities	25,516	422			25,516	422
FHLMC preferred stock			2,489	586	2,489	586
Total	$ 83,338	$ 1,027	$ 79,901	$ 1,319	$ 163,239	$ 2,346

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. Treasury and 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 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.
5. Past Due and Impaired Loans:
Loans past due ninety days or more and still accruing were $272,000 and $1,366,000 at September 30, 2007 and 2006, respectively. Nonaccrual loans amounted to approximately $136,000 and $402,000 at September 30, 2007 and 2006, respectively.

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At September 30, 2007 and 2006, the Company s other individually evaluated impaired loans included performing loans and totaled $8,314,000 and $13,026,000. The average recorded investment in impaired loans amounted to approximately $8,328,000 and $13,504,000 at September 30, 2007 and 2006, respectively. The Company had $5,032,000 and $4,619,000 of specific allowance related to impaired loans at September 30, 2007 and 2006, respectively. Interest income recognized on impaired loans was $172,000 and $289,000 during the nine months ended September 30, 2007 and 2006, respectively. Interest income recognized on impaired loans if the Company had used the cash-basis method of accounting would have approximated $224,000 and $300,000 during the nine months ended September 30, 2007 and 2006, respectively.

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses were as follows:

	For the Nine Months Ended September 30, 2007	For the Year Ended December 31, 2006	For the Nine Months Ended September 30, 2006
Balance, beginning of period	$ 10,841,367	$ 10,966,022	$ 10,966,022
Provision for loan losses	(1,097,000)	141,000	125,000
Recoveries	211,395	463,345	316,646
Loans charged off	(496,672)	(729,000)	(479,361)
Balance, end of period	$ 9,459,090	$ 10,841,367	$ 10,928,307

7. Other Comprehensive Income:

The income tax benefit on the accumulated other comprehensive income was $455,000 and $428,000 at September 30, 2007 and 2006, respectively.

8. Federal Funds Purchased and Securities Sold Under Agreements to Repurchase:

On June 27, 2007, the Board of Directors authorized the Company to establish an additional $10,000,000 unsecured line of credit. As a result, the Company now has facilities in place to purchase federal funds up to $111,000,000 under established credit arrangements in order to meet its liquidity needs.

9. Notes Payable:

On June 27, 2007, the Board of Directors authorized the Company to open a $5,000,000 unsecured line of credit with The Bankers Bank. The line draws interest at 1/2% under New York Prime and requires interest only payments quarterly with all principal and remaining accrued interest due at maturity, which is July 6, 2009.

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10. Income Taxes:

The Financial Accounting Standards Board (the FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). This interpretation clarifies the accounting and disclosure for uncertainty in income tax positions and is effective for the Company for the year beginning January 1, 2007. The Company has considered the recognition and measurement requirements of FIN 48 of the benefits recorded in its financial statements for tax positions taken or expected to be taken in its tax returns. Based on its evaluation of these tax positions for open tax years 2003 2006, the unrecognized tax benefit, including applicable interest and penalties, is not material to the financial position of the Company as of January 1, 2007.

11. Shareholders Equity:

As of July 25, 2007, the Company repurchased and retired 119,184 shares, including 55,974 shares repurchased and retired since July 1, 2007, under a stock repurchase plan originally approved on November 26, 2002 and extended on November 22, 2005. At July 25, 2007, the Company had the authorization to repurchase and retire an additional 20,290 shares under the plan approved on November 26, 2002 and extended November 22, 2005.

On July 25, 2007, the Board of Directors approved a stock repurchase plan under which 2.50%, or approximately 136,000, of the outstanding shares of Company stock may be repurchased and retired.

12. Certain reclassifications, which had no effect on prior year net income, have been made to the prior period statements to conform to current year presentation.

Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

The following presents Management s discussion and analysis of the consolidated financial condition and results of operations of Peoples Financial Corporation and Subsidiaries (the Company) for the nine months ended September 30, 2007 and 2006. These comments highlight the significant events and should be considered in combination with the Consolidated Financial Statements included in this report on Form 10-Q.

Forward-Looking Information

Congress passed the Private Securities Litigation Act of 1995 in an effort to encourage corporations to provide information about a company s anticipated future financial performance. This act provides a safe harbor for such disclosure which protects the companies from unwarranted litigation if actual results are different from management expectations. This report contains forward-looking statements and reflects industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company s actual results and experience to differ from the anticipated results and expectations expressed in such forward-looking statements.

Overview

Total assets decreased from $991,000,000 at September 30, 2006 to $941,000,000 at September 30, 2007. The Company has maintained most of the deposit growth realized since Hurricane Katrina in August of 2005, but some volatility has been experienced during the last two quarters. Further significant decreases in total deposits is not anticipated over the next several quarters.

During the third quarter of 2007, non-performing loans, especially loans on nonaccrual, have decreased significantly. The Company anticipated an overall material deterioration in the quality of its loan portfolio as a result of Hurricane Katrina. Fortunately, this deterioration has not been realized and, along with the improvement in asset quality during 2007, contributed to Management s decision to record a negative provision for loan losses during the third quarter.

During the first nine months of 2007, net income was $8,096,000, as compared with $7,775,000 for the first nine months of 2006. Earnings for the first nine months of 2007 included a negative loan loss provision of $724,000, net of taxes, and a loss on the sale of securities of $405,000, net of taxes. Income from operations, when adjusted for these non-recurring events, was $7,777,000 for the nine months ended September 30, 2007.

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The following compares financial highlights for the nine months ended September 30, 2007 and 2006:

For the nine months ended September 30,	2007	2006
Net income per share	$ 1.47	$ 1.40
Book value per share	$ 18.96	$ 17.11
Return on average total assets	1.12%	1.12%
Allowance for loan losses as a % of loans, net of unearned discount	2.10%	2.71%

Financial Condition

Held to Maturity Securities

Held to maturity securities decreased $99,217,000 at September 30, 2007, compared with September 30, 2006. The significant increase in the balances of deposits and non-deposit products after Hurricane Katrina in August 2005 has outpaced loan demand during the last twenty-four months. These funds were initially invested in short term U.S. Treasury securities and classified as held to maturity. Proceeds from the maturity of these investments are now primarily funding the purchase of U.S. Treasury securities, U.S. Agency securities and mortgage-backed securities with longer maturities and which are being classified as available for sale.

Gross unrealized gains for held to maturity securities were $37,000 and $61,000 at September 30, 2007 and 2006, respectively. Gross unrealized losses were $25,000 and $152,000 at September 30, 2007 and 2006, respectively. The following schedule reflects the mix of the held to maturity investment portfolio at September 30, 2007 and 2006:

September 30,	2007		2006	
	Amount	%	Amount	%
U.S. Treasury	$ 3,999,145	46%	$ 43,499,182	40%
U.S. Government agencies			58,904,984	55%
States & political subdivisions	4,629,041	54%	5,441,252	5%
Totals	$ 8,628,186	100%	$ 107,845,418	100%

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Available for Sale Securities

Available for sale securities increased $21,434,000 at September 30, 2007, compared with September 30, 2006, as a result of managing the Company s liquidity position, as discussed above. The Company has recently invested in mortgage-backed securities, which are in either FNMA or FHLMC Gold pools. Management has evaluated its portfolio of these securities, carefully considering the potential effects of the recent subprime lending crisis, and has determined that there is no material risk to its mortgage-backed securities.

Gross unrealized gains were $1,237,000 and $640,000 and gross unrealized losses were $2,322,000 and $3,568,000 at September 30, 2007 and 2006, respectively. The following schedule reflects the mix of available for sale securities at September 30, 2007 and 2006:

September 30,	2007		2006	
	Amount	%	Amount	%
U.S. Treasury	$ 76,466,040	19%	$ 53,617,300	14%
U.S. Government agencies	269,818,394	69%	299,165,147	80%
Mortgage-backed securities	25,516,408	6%		
States and political subdivisions	18,834,535	5%	16,786,495	5%
Other securities	4,304,712	1%	3,936,910	1%
Totals	$ 394,940,089	100%	$ 373,505,852	100%

Loans

Loans increased $46,815,000 at September 30, 2007, as compared with September 30, 2006. Slower than expected recovery funding and increasing insurance costs have resulted in minimal loan growth on the Mississippi Gulf Coast since Hurricane Katrina in August 2005. The Company has supplemented its loan portfolio with out of area and syndicated national casino credits as loan demand fluctuates in its trade area. With the large increase in deposits since Hurricane Katrina far exceeding local loan demand, out of area loans and syndicated national casino loans have been more aggressively pursued and such loans increased $15,865,000 and $25,733,000, respectively, at September 30, 2007 as compared with September 30, 2006.

Bank Premises and Equipment

Bank premises and equipment increased $9,281,000 at September 30, 2007, as compared with September 30, 2006, primarily as a result of construction projects including the expansion of the Main Office and renovations at our Orange Grove branch.

Accrued Interest Receivable

Accrued interest receivable decreased $613,000 at September 30, 2007, as compared with September 30, 2006, due to an decrease in interest earning assets during the quarter.

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Deposits

Total deposits decreased $53,779,000 at September 30, 2007, as compared with September 30, 2006. Typically, significant increases or decreases in total deposits and/or significant fluctuations among the different types of deposits from quarter to quarter are anticipated by Management as customers in the casino and construction industries and county and municipal areas reallocate their resources periodically. Since Hurricane Katrina in August 2005, the Company has realized a significant increase in demand and savings deposits and jumbo CD s as municipal customers receive federal and state funding and commercial and personal customers have received insurance proceeds, block grants, SBA loans and other forms of assistance.

During 2007, fluctuations in total deposits and among the types of deposits have been affected by the transfer of funds from demand and savings deposits and into certificates of deposit in the Company s bank subsidiary and in other financial institutions. The Company s trade area has experienced a very competitive rate environment, particularly since the beginning of 2007. As a result, the cost of funds has increased, particularly for certificates of deposit. In some cases, the Company has determined that it would not match a higher rate offered to our customer by a competitor, even if this action resulted in a customer transferring their funds to another financial institution.

The Company has managed its funds including structuring the maturity of investment securities and the classification of investments as well as utilizing other funding sources and structuring their maturity to manage the potential volatility of its deposits.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

Federal funds purchased and securities sold under agreements to repurchase decreased $4,184,000 at September 30, 2007, as compared with September 30, 2006, as a result of the reallocation of funds by certain commercial customers between deposit and non-deposit products.

Borrowings from Federal Home Loan Bank

The Company obtains funds from the Federal Home Loan Bank as a part of the management of its liquidity position. Borrowings from Federal Home Loan Bank decreased $3,468,000 at September 30, 2007 as compared with September 30, 2006 according to those liquidity needs.

Other Liabilities

Other liabilities increased $3,331,000 at September 30, 2007, as compared with September 30, 2006. This increase is primarily a result of an increase in the liability for the Company s retiree health plan of $1,158,000 due to the adoption of SFAS 158 at December 31, 2006 and to the increase in liabilities related to deferred compensation plans.

Shareholders Equity and Capital Adequacy

Strength, security and stability have been the hallmark of the Company since its founding in 1985 and of its bank subsidiary since its founding in 1896. A strong capital foundation is fundamental to the continuing prosperity of the Company and the security of its customers and shareholders. One measure of capital adequacy is the primary capital ratio which was 11.69% at September 30, 2007, as compared with 11.40% at September 30, 2006. These ratios are well above the regulatory minimum of 6.00%. Management continues to emphasize the importance of maintaining the appropriate capital levels of the Company and has established the goal of maintaining its primary capital ratio at 8.00%, which is the minimum requirement for classification as being well-capitalized by the banking regulatory authorities.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income, the amount by which interest income on loans, investments and other interest earning assets exceeds interest expense on deposits and other borrowed funds, is the single largest component of the Company s income. Management s objective is to provide the largest possible amount of income while balancing interest rate, credit, liquidity and capital risk.

The Company s net interest margin on a tax-equivalent basis, which is net income as a percentage of average earning assets, was 3.51% at September 30, 2007, down 32 basis points from 3.83% at September 30, 2006. The table that follows this discussion analyzes the changes in tax-equivalent net interest income for the nine months ended September 30, 2007 and 2006.

Average earning assets increased $81,266,000, or 10%, from $799,445,000 in September 2006 to $880,711,000 in September 2007. The average yield on earning assets improved 55 basis points, from 5.92% at September 30, 2006 to 6.47% at September 30, 2007. The increase in the yield is attributable to increases in prime rate since January 1, 2006. The large increase in funds from deposit and funds management account growth during the last twenty-four months has funded the increase in loan demand and the remaining funds have been invested in U.S. Treasury and Agency securities and classified as held to maturity in 2006 and as available for sale in 2007. The loan portfolio generally has a 40%/60% blend of fixed/floating rate term. This fact, coupled with the relatively shorter term duration of investment maturities results in the Company being more asset sensitive to changes in market interest rates.

Average interest bearing liabilities increased $97,418,000, or 16%, from $622,915,000 in September 2006 to $720,333,000 in September 2007. The average rate paid on interest bearing liabilities increased 94 basis points, from 2.68% in September 2006 to 3.62% in September 2007. This significant increase, as well as the decrease in the net tax-equivalent yield on earning assets, is largely the result of rates paid on certificates of deposits and funds management accounts, a non-deposit product classified as federal funds purchased and securities sold under agreement to repurchase.

Analysis of Average Balances, Interest Earned/Paid and Yield
(In Thousands)

	For the Nine Months Ended September 30, 2007			For the Nine Months Ended September 30, 2006		
	Average Balance	Interest Earned/ Paid	Yield	Average Balance	Interest Earned/ Paid	Yield
INTEREST INCOME:						
Loans (2)(3)	$ 421,795	$ 25,132	7.94%	$ 371,693	$ 20,902	7.50%
Federal funds sold	4,839	189	5.21%	18,138	760	5.59%
Held to maturity:						
Taxable	28,085	1,060	5.03%	153,559	5,288	4.59%
Non-taxable (1)	4,830	229	6.32%	5,949	314	7.04%
Available for sale:						
Taxable	397,409	15,161	5.09%	230,558	7,413	4.29%
Non-taxable (1)	18,382	811	5.89%	14,650	646	5.88%
Other	5,371	183	4.54%	4,898	148	4.03%
Total	$ 880,711	$ 42,765	6.47%	$ 799,445	$ 35,471	5.92%
INTEREST EXPENSE:						
Savings and demand, interest bearing	$ 276,246	$ 4,225	2.04%	$ 309,084	$ 4,040	1.74%
Time deposits	206,536	6,869	4.43%	143,819	3,938	3.65%
Federal funds purchased and securities sold under agreements to repurchase	228,248	8,045	4.70%	161,824	4,186	3.45%
Borrowings from FHLB	9,303	418	5.99%	8,188	362	5.89%
Total	$ 720,333	$ 19,557	3.62%	$ 622,915	$ 12,526	2.68%
Net tax-equivalent yield on earning assets			3.51%			3.83%

(1) All interest earned is reported on a taxable equivalent basis using a tax rate of 34% in 2007 and 2006.

(2) Loan fees of $683 and $425 for 2007 and 2006,

respectively, are included in these figures.

(3) Includes nonaccrual loans.

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Provision for Loan Losses

Management continuously monitors the Company s relationships with its loan customers, especially those in concentrated industries such as gaming/casino and hotel/motel, as well as the exposure for out of area loans, and their direct and indirect impact on its operations. A thorough analysis of current economic conditions and the quality of the loan portfolio is conducted on a quarterly basis. Management utilized these analyses, with special emphasis on the impact of Hurricane Katrina on the loan portfolio and underlying collateral, in determining the adequacy of its allowance for loan losses at September 30, 2007. In determining potential loan losses as a result of Hurricane Katrina since August 2005, the Company evaluated its commercial and residential loan portfolios separately.

Management continues its evaluation in recognition of the extraordinary impact of Katrina on its trade area, attempting to quantify potential losses in accordance with the Company s established methodology. Loan performance and deposit overdrafts are closely monitored in order to identify developing problems as early as possible.

Since Hurricane Katrina struck the Mississippi Gulf Coast in August of 2005, many issues have been considered in the Company s evaluation. Uncertainty regarding the impact of federal assistance, settlement of insurance claims, the availability and affordability of windstorm insurance, the rate and pace of recovery in the Company s trade area, increasing construction costs and the ability of customers to service their debt must be carefully considered.

The overall material deterioration in asset quality anticipated by the effects of Hurricane Katrina during the initial evaluation has not been realized and the Company has identified no additional significant potential losses as a result of Hurricane Katrina since its initial evaluation in September 2005. During the third quarter of 2007, non-performing loans have decreased significantly with loans past due 90 days and still accruing dropping from $1,489,000 at June 30, 2007 to $272,000 at September 30, 2007 and nonaccrual loans falling from $3,803,000 at June 30, 2007 to $136,000 at September 30, 2007.

Additionally, Management has considered the historical data available from the impact of other natural disasters on the Mississippi Gulf Coast and other coastal communities, including the length of time between the storm s landfall and identification of all losses. Past bank experience with hurricanes and FDIC research have shown that the actual loss position generally becomes apparent within a two year window after the event.

Strong asset quality and the passage of time strongly contributed to Management s decision to record a negative provision for loan losses of $1,250,000 during the third quarter.

The Company recorded a provision of $153,000 during the first nine months of 2007 which relates to potential losses on overdrawn deposit accounts. This provision is included in the provision for allowance for losses on loans in the consolidated income statement.

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Trust Department Income and Fees

Trust Department income and fees increased $165,000 for the first nine months of 2007 as compared with the first nine months of 2006, as a result of an increase in cash management accounts funded with insurance and other proceeds.

Service Charges on Deposit Accounts

Service charges on deposit accounts increased $1,318,000 for the nine months ended September 30, 2007, as compared with the nine months ended September 30, 2006. This increase is almost equally the result of an increase in ATM fee income as transactions at casino ATMs have significantly increased during this period and an increase in NSF fee income due to an increase in the fee charged.

Loss on Sale of Securities

The Company realized a loss from the sale of available for sale securities during the first nine months of 2007 of $614,000. The proceeds of these sales were used to fund the liquidity needs of the bank subsidiary.

Other Income

Other income increased $121,000 for the nine months ended September 30, 2007 as compared with the nine months ended September 30, 2006, primarily as a result of the gain from the sale of bank premises of $192,000.

Salaries and Employee Benefits

Salaries and employee benefits increased $1,174,000 for the first nine months of 2007 as compared with the first nine months of 2006. The Company increased salaries to its employees in order to reward performance and retain personnel within the competitive local employment environment.

Equipment Rentals, Depreciation and Maintenance

Equipment rentals, depreciation and maintenance increased $352,000 for the nine months ended September 30, 2007 as compared with the nine months ended September 30, 2006 as a result of an increase in depreciation costs from banking premises acquired during 2006 and 2007.

Other Expense

Other expense increased $693,000 for the nine months ended September 30, 2007 as compared with the nine months ended September 30, 2006, primarily as a result of the increase in expenses related to offsite ATMs as transactions increase.

LIQUIDITY

Liquidity represents the Company s ability to adequately provide funds to satisfy demands from depositors, borrowers and other commitments by either converting assets to cash or accessing new or existing sources of funds. Management monitors these funds requirements in such a manner as to satisfy these demands and provide the maximum earnings on its earning assets. Deposits, payments of principal and interest on loans, proceeds from maturities of investment securities and earnings on investment securities are the principal sources of funds for the Company. Since Hurricane Katrina, the Company s deposits and non-deposit accounts have increased significantly, as discussed previously. Management carefully monitors its liquidity needs, particularly relating to these potentially volatile deposits. The Company is currently investing in short-term U. S. Treasury and Agency Securities. It is anticipated that loan demand will be funded in future quarters from the maturity of these investments.

Item 4: Controls and Procedures

As of September 30, 2007, an evaluation was performed under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no changes in the Company s internal control over financial reporting that occurred during the period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1 Legal Proceedings

The Company s bank subsidiary (the Bank) filed suit against USF&G in 1998 to recover damages for USF&G s bad faith failure to defend and indemnify the Bank in connection with a lawsuit filed against the Bank in 1996. The Bank obtained legal representation from a local plaintiff s attorney and customer (Attorney) on a contingent basis.

In December 2000, the case was transferred from the judge to whom it was originally assigned to a second judge (the Judge). The Judge had previously handled some discovery matters in the case.

The Bank had made a routine loan to the Judge in November 1998, which was guaranteed by the Attorney. The loan was repaid in February 2000 by someone other than the Judge, apparently at the request of the Attorney. Neither the Attorney nor the Judge disclosed the loan or the repayment to USF&G or its counsel.

During the course of the case, the Bank and USF&G filed competing motions for summary judgment. The Judge granted summary judgment in the Bank s favor on the issue of liability and subsequently presided over a settlement conference in which he expressed his opinion about the value of the case in monetary terms. The case was settled on December 24, 2001, for $1.5 million

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In 2003, the Attorney, the Judge and other parties were indicted for alleged fraud, bribery, etc. involving various events, including allegations concerning the Bank v. USF&G lawsuit. Neither the Bank nor any Bank employee was indicted. Following the indictments, USF&G filed a civil action against the Attorney, the Judge and the Bank alleging fraud in connection with the outcome of the Bank v. USF&G lawsuit. The complaint demands $2.5 million in compensatory damages and $10 million in punitive damages, prejudgment interest and attorneys fees, etc. The USF&G v. Bank suit was stayed until 30 days following the completion of the criminal case. There has been no discovery.

The criminal case against the Attorney, the Judge and other parties concluded on August 12, 2005. No guilty verdicts were returned. The defendants received not guilty verdicts on several counts and there was no verdict (mistrial) on a number of other counts, including the Bank v. USF&G matter. On September 16, 2005, the U. S. Attorney s office announced that it will retry the Attorney, the Judge and other parties on fraud and bribery charges related to the Bank v. USF&G matter. The new trial began on February 7, 2007. On March 31, 2007, guilty verdicts on counts of bribery, conspiracy, mail fraud/honest services fraud and racketeer influenced corrupt organizations (RICO) violations were returned against the Attorney, the Judge and other parties. The Attorney, the Judge and other parties have indicated that they plan to appeal the guilty verdicts. Despite the verdicts in the criminal case, the USF&G v. Bank suit remains subject to the stay order until the stay order is lifted by the judge in that case.

Item 4 Submission of Matters to a Vote of Security Holders

None.

Item 5 Other Information

As a part of a periodic evaluation of the compensation program that the Company provides for its executives, it was determined that the deferred compensation plans should be amended to clarify certain provisions of the plans and to adopt applicable provisions of Section 409A of the Internal Revenue Code of 1986, as amended. On September 28, 2007 the Board of Directors approved the Company s amended and restated Deferred Compensation Plan. Lauri A. Wood, the Company s Chief Financial Officer, and A. Wes Fulmer, Thomas J. Sliman and Robert M. Tucei, each a named executive officer of the Company, participate in the Company s Deferred Compensation Plan. Additionally, the Board of Directors approved the amended and restated Executive Supplemental Income Plan Agreements between the Company and Chevis C. Swetman, the Company s Chief Executive Officer, Ms. Wood, Mr. Fulmer, Mr. Sliman and Mr. Tucei.

The Company filed Form 8-K on October 4, 2007, disclosing this activity. Pursuant to Instruction B.4 to Form 8-K, the documents relating to the Deferred Compensation Plan and Executive Supplemental Income Plan are filed as Exhibit 10.1 through Exhibit 10.4 to this Form 10-Q. Exhibit 10.4 is the Executive Supplemental Plan Agreement for Lauri A. Wood. This Agreement is identical to the Executive Supplemental Plan Agreement for Thomas J. Sliman and Robert M. Tucei. Accordingly, Exhibit 10.4 applies to Ms. Wood, Mr. Sliman and Mr. Tucei.

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Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 10.1:	Deferred Compensation Plan
Exhibit 10.2:	Executive Supplemental Income Plan Agreement Chevis C. Swetman
Exhibit 10.3:	Executive Supplemental Income Plan Agreement A. Wes Fulmer
Exhibit 10.4:	Executive Supplemental Income Plan Agreement Lauri A. Wood
Exhibit 31.1:	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 31.2:	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
Exhibit 32.1:	Certification of Chief Executive Officer Pursuant to 18 U.S.C. ss. 1350
Exhibit 32.2:	Certification of Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350

(b) Reports on Form 8-K

A Form 8-K was July 16, 2007, October 4, 2007 and October 15, 2007.

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SIGNATURES

Pursuant to the requirement of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEOPLES FINANCIAL CORPORATION
(Registrant)

Date: November 9, 2007

By: /s/ Chevis C. Swetman

Chevis C. Swetman
Chairman, President and Chief Executive Officer

Date: November 9, 2007

By: /s/ Lauri A. Wood

Lauri A. Wood
Chief Financial Officer and Controller
(principal financial and accounting officer)

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