

PEOPLES FINANCIAL CORP /MS/

Form 11-K

June 27, 2011

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K**

**ANNUAL REPORT  
PURSUANT TO SECTION 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**  
For the fiscal year ended **December 31, 2010**

or

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**Commission file number 01-12103**

**A. Full title of the plan and the address of the plan, if different from that of the issuer named below:**

**Peoples Financial Corporation Employee Stock Ownership Plan**

Howard and Lameuse Avenues

Biloxi, Mississippi 39533

**B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:**

**Peoples Financial Corporation**

Howard and Lameuse Avenues

Biloxi, Mississippi 39533

**Peoples Financial Corporation Employee Stock Ownership Plan  
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**Report of Independent Registered Public Accounting Firm**

To the Audit Committee of Peoples Financial Corporation  
Peoples Financial Corporation Employee Stock Ownership Plan  
Biloxi, Mississippi

We have audited the accompanying statements of net assets available for benefits of Peoples Financial Corporation Employee Stock Ownership Plan as of December 31, 2010 and 2009, and the related statement of changes in net assets available for benefits for the year ended December 31, 2010. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Peoples Financial Corporation Employee Stock Ownership Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) as of December 31, 2010 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the United States Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements for the year and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ PORTER KEADLE MOORE, LLP

Atlanta, Georgia  
June 27, 2011

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Statements of Net Assets Available for Benefits**

	December 31,	
	2010	2009
<b>Assets</b>		
Cash	\$ 225	\$ 3,193
Contribution receivable		40,510
Peoples Financial Corporation common stock	6,690,350	9,060,363
Total assets	6,690,575	9,104,066
<b>Liabilities</b>		
Other liabilities	32	57
Net assets available for benefits	\$ 6,690,543	\$ 9,104,009

See Accompanying Notes to Financial Statements.

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**Peoples Financial Corporation Employee Stock Ownership Plan  
Statement of Changes in Net Assets Available for Benefits  
For the Year Ended December 31, 2010**

**Additions to net assets**

Investment income:

Net change in fair value of Peoples Financial Corporation common stock	\$ (2,306,711)
Interest	7
Dividends, Peoples Financial Corporation	92,748

Total investment income	(2,213,956)
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Employer contributions	5,000
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Total additions	(2,208,956)
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**Deductions from net assets**

Distributions paid to participants	204,510
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Total deductions	204,510
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Change in net assets available for benefits	(2,413,466)
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Net assets available for benefits, beginning of year	9,104,009
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Net assets available for benefits, end of year	\$ 6,690,543
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See Accompanying Notes to Financial Statements.

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**Peoples Financial Corporation Employee Stock Ownership Plan  
Notes to Financial Statements**

**NOTE A DESCRIPTION OF PLAN**

The following description of the Peoples Financial Corporation (the Company ) Employee Stock Ownership Plan (the Plan ) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan s provisions.

**General**

The Plan is a defined contribution plan covering all employees of the Company who are age 21 or older and employed in a position requiring the completion of at least 1,000 hours of service per plan year. Entrance in the plan is on January 1<sup>st</sup> or July 1<sup>st</sup>, following the employee s initial date of eligibility. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Employer Contributions**

Annual contributions are determined by the Company s Board of Directors. The maximum annual contribution credited to a participant s account is equal to the lesser of the maximum amount which can be allocated to any participant s account as provided in Section 415(d) of the Internal Revenue Code of 1986 ( IRC ) or one hundred percent (100%) of the participant s IRC Section 415 compensation. The maximum annual addition to a participant s account was \$49,000 for years ended December 31, 2010 and 2009.

**Participant Accounts**

A separate Company Stock Account and Other Investments Account will reflect each participant s interest. Vesting is based on years of credited service. For contributions on or after January 1, 2007, a participant is 100% vested after 6 years of credited service according to the following schedule:

Less than two years	0%
Two years	20%
Three years	40%
Four years	60%
Five years	80%
Six years	100%

**Company Stock Account** This account is credited annually with the employee s allocable share of Company stock purchased and paid for by the Trust or contributed in kind to the Trust, and with any stock dividends on Company stock allocated to the employee s Company Stock Account.

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**Other Investments Account** This account is credited or debited annually with the employee's share of net income or loss of the Trust, with any forfeitures of common stock, with any cash dividends on Company stock allocated to the employee's Company Stock Account, with the employee's allocable share of the employer contributions in cash and with any forfeitures from Other Investment Accounts.

**Investment Funds**

The Trustee will invest employer contributions primarily in Company Stock.

**Diversifications**

Diversification is offered to participants close to retirement so that they may have the opportunity to move part of the value of their investment in Company stock into investments which are more diversified. Participants who are at least age 55 with at least 10 years of participation in the Plan may elect to diversify a portion of their account.

Diversification is offered to each eligible participant over a six-year period. The qualified participant may choose to receive this diversification distribution as a direct rollover to a traditional IRA or eligible employer plan or the diversification distribution may be paid directly to the qualified participant. In each of the first five years, a participant may diversify up to 25% of the number of post-1986 shares allocated to his or her account, less any shares previously diversified. In the sixth year, the percentage changes to 50%.

**Payment of Benefits**

Upon retirement (as defined), a participant is entitled to receive 100% of his or her account balance in a lump-sum distribution. Upon the death of a participant, the designated beneficiary is entitled to receive 100% of the participant's account in a lump-sum distribution. In addition, disabled participants are entitled to 100% of their account balances. Plan participants who terminate for reasons other than retirement, death or disability are entitled to receive only the vested portion of their accounts.

Eligible participants are entitled to receive required minimum distributions in annual installments.

Upon termination of employment, amounts not vested will be forfeited with such forfeitures being allocated to the accounts of the remaining active participants in the same proportion that the compensation of each participant bears to the total compensation of all active participants during the year.

**Voting Rights**

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. The Trustee, however, shall vote any allocated shares for which instructions have not been given by a participant. The Trustee is required to vote any unallocated shares.



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**Plan Amendments**

The Plan was amended and restated as of January 1, 2008. The Plan was restated to include the mandatory provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (also known as EGTRRA 2001). The Plan has been in operational compliance since the law's passing. Amendments to the Plan include 1) allowing the distribution of a participant's benefit to be made in cash or Company stock, or both, provided, however, that if a participant or beneficiary so demands, such benefit shall be distributed only in the form of Company stock; 2) the distributions provisions have been amended to allow for participants to be paid as soon as administratively feasible after termination; and 3) the cash out level has been raised from \$1,000 to \$5,000. Any participant with a vested balance between these figures who does not make an affirmative election to take their distribution (or elect a rollover) will have their benefits automatically rolled over to an IRA.

The Plan was amended effective as of January 1, 2009 to include the mandatory changes from the 2008 Cumulative List of Changes in Plan Qualification Requirements described in section 4 of Revenue Procedure 2005-66 as modified by Revenue Procedure 2007-44. Amendments to the Plan include 1) permitting a direct rollover of a distribution to a non-spouse beneficiary into an individual retirement account or annuity, 2) extending the period for providing notice of distribution options and required consents from 30 to 90 days to 30 to 180 days, 3) including provisions for a partial plan termination and 4) formally adopting a new vesting schedule for employer contributions and non-elective contributions that the Plan implemented as of January 1, 2007.

**NOTE B SUMMARY OF ACCOUNTING POLICIES**

**Basis of Accounting**

The financial statements of the Plan are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ( GAAP ).

**New Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-06, Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements. This update requires entities to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately (i.e., on a gross basis rather than as one net number), information about purchases, sales, issuances, and settlements in the roll forward of changes in Level 3 fair value measurements. The update requires fair value disclosures by class of assets and liabilities rather than by major category or line item in the statement of financial position. Disclosures regarding the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for assets and liabilities in both Level 2 and Level 3 are also required. For all portions of the update except the gross presentation of activity in the Level 3 roll forward, this standard is effective for interim

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and annual reporting periods beginning after December 15, 2009. For the gross presentation of activity in the Level 3 roll forward, this guidance is effective for fiscal years beginning after December 15, 2010. As this guidance is only disclosure-related, it will not have a material impact on the Plan's financial statements.

In September 2010, the FASB issued ASU 2010-25, Reporting Loans to Participants by Defined Contribution Pension Plans (ASU 2010-25). ASU 2010-25 requires that participant loans be classified as notes receivable and measured at unpaid principal balance plus accrued but unpaid interest. Prior to the issuance of ASU 2010-25, loans to participants were reported as investments at fair value. ASU 2010-25 is effective for fiscal years ended after December 15, 2010 with retrospective application. The Plan adopted ASU 2010-25 for the year ended December 31, 2010. The adoption of ASU 2010-25 had no impact on the presentation of the statements of net assets available for plan benefits.

**Investments**

The Plan's investment in Company stock is recorded at fair value as quoted on the NASDAQ Capital Market Exchange. Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses from security transactions are reported on the average cost method. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

**Benefit Payments**

Benefit payments to participants are recorded upon distribution.

**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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**NOTE C INVESTMENTS**

Financial assets and liabilities reported at fair value at each reporting date are classified and disclosed in one of the following categories: Level 1 Quoted market prices in active markets for identical assets or liabilities, Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data, or Level 3 Unobservable inputs that are not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date. The balance of the Company's investment in Peoples Financial Corporation common stock, which are measured at fair value on a recurring basis, by level within the fair value hierarchy as of December 31, 2010 and 2009, respectively are as follows:

	Total Assets at Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
December 31, 2010	\$ 6,690,350	\$ 6,690,350	\$	\$
December 31, 2009	9,060,363	9,060,363		

**NOTE D COST OF PLAN ADMINISTRATION**

The Company absorbs the cost of plan administration. These costs were \$14,975 and \$14,784 for the years ended December 31, 2010 and 2009, respectively.

**NOTE E PLAN TERMINATION**

Although it has not expressed any intent to do so, the Company has the right under the plan to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become 100% vested in their accounts.

**NOTE F TAX STATUS**

The Company received a favorable determination letter dated February 27, 2002, from the Internal Revenue Service ( IRS ) under which the Plan qualifies for favorable tax treatment under Sections 401(a) and 4975(e)(7) of the Internal Revenue Code and, therefore, is exempt from federal income taxes under provisions of Section 501(a).

As a result of the Plan's recent amendments, in 2010 the Company filed an application with the IRS requesting determination concerning the qualification of the Plan. The IRS notified the Company that the application was received, but the application is still under review.

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**NOTE G PARTY-IN-INTEREST TRANSACTIONS**

Common stock of the Company, the Plan sponsor, is the only investment of the Plan. The shares held by the Plan at December 31, 2010 and 2009 had a market value of \$6,690,350 and \$9,060,363, respectively. The plan purchased \$138,898 (9,101 shares) and sold \$201,899 (13,669 shares) of the Plan sponsor's common stock during the year ended December 31, 2010. In 2010, the Plan received cash dividends of \$92,748 from its investment in Company stock. Members of management of the Plan sponsor are participants in the Plan; however there are no transactions with these individuals other than their participation in the Plan. The Asset Management & Trust Division of The Peoples Bank, Biloxi, Mississippi, a wholly owned subsidiary of the Plan sponsor, serves as the Trustee of the Plan.

**NOTE H CONCENTRATION OF MARKET RISK**

The Plan has invested a significant portion of its assets in Company common stock. This investment in the Company's common stock approximates 99% of the Plan's net assets available for benefits as of December 31, 2010. As a result of the concentration, any significant reduction in the market value of the stock could adversely affect individual participant accounts and the net assets of the Plan.

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**Peoples Financial Corporation Employee Stock Ownership Plan  
Schedule H, Line 4i Schedule of Assets (Held at End of Year)  
December 31, 2010**

<b>(a)</b>	<b>Identity of issuer or similar party (b)</b>	<b>Description of assets (c)</b>	<b>Cost (d)</b>	<b>Fair Value (e)</b>
*	Peoples Financial Corporation	Common Stock - 441,316 shares	\$ 3,432,715	\$ 6,690,350

\* represents party-in-interest

See Accompanying Report of Independent Registered Public Accounting Firm.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Peoples Financial Corporation Employee  
Stock Ownership Plan  
Name of Plan

/s/ Thomas H. Wicks  
The Asset Management and Trust Division of  
The Peoples Bank, Biloxi, Mississippi;  
Trustee

By: Thomas H. Wicks, Trust Officer,  
The Peoples Bank, Biloxi, Mississippi

June 27, 2011  
Date