

PEOPLES FINANCIAL CORP /MS/

Form 11-K

June 26, 2009

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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, 2008

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 401(k) Profit Sharing 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 401(k) Profit Sharing Plan
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Report of Independent Registered Public Accounting Firm

To The Audit Committee of Peoples Financial Corporation
Peoples Financial Corporation 401(k) Profit Sharing Plan

We have audited the accompanying statements of net assets available for benefits of Peoples Financial Corporation 401(k) Profit Sharing Plan as of December 31, 2008 and 2007, and the related statement of changes in net assets available for benefits for the year ended December 31, 2008. 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 401(k) Profit Sharing Plan as of December 31, 2008 and 2007, and the changes in net assets available for benefits for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audits of the Plan's financial statements as of and for the year ended December 31, 2008, were conducted 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) 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 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 and has been subjected to the auditing procedures applied in our audits of the basic financial statements for the year ended December 31, 2008, 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 25, 2009

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**Peoples Financial Corporation 401(k) Profit Sharing Plan
Statements of Net Assets Available for Benefits**

| | December 31, | |
|---|----------------------|----------------------|
| | 2008 | 2007 |
| Assets | | |
| Cash | \$ 95,892 | \$ 130,183 |
| Investments at fair value: | | |
| Mutual funds | 4,492,367 | 8,249,795 |
| Common stock | 1,068,196 | 1,491,085 |
| Investment contract | 3,987,190 | 2,374,141 |
| Wrap contract | 32,791 | 15,814 |
| Total investments | 9,580,544 | 12,130,835 |
| Contributions receivable | 1,154 | |
| Total assets | 9,677,590 | 12,261,018 |
| Liabilities | | |
| Distribution payable | | 7,975 |
| Other | 72 | |
| Total liabilities | 72 | 7,975 |
| Net assets reflecting all investments at fair value | 9,677,518 | 12,253,043 |
| Adjustment from fair value to contract value for fully-benefit responsive investment contract | 607,805 | (10,222) |
| Net assets available for benefits | \$ 10,285,323 | \$ 12,242,821 |

See Notes to Financial Statements.

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**Peoples Financial Corporation 401(k) Profit Sharing Plan
Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2008**

Additions to net assets

Investment income:

| | |
|---|----------------|
| Net change in fair value of investments | \$ (2,698,324) |
| Interest | 1,363 |
| Dividends | 173,107 |
| Total investment income | (2,523,854) |

Contributions:

| | |
|---------------------|-----------|
| Employer | 375,465 |
| Employees | 698,449 |
| Rollovers | 51,617 |
| Total contributions | 1,125,531 |

Total additions (1,398,323)

Deductions from net assets

| | |
|------------------------------------|---------|
| Distributions paid to participants | 558,038 |
| Other expenses | 1,137 |
| Total deductions | 559,175 |

Change in net assets available for benefits (1,957,498)

Net assets available for benefits, beginning of year 12,242,821

Net assets available for benefits, end of year \$ 10,285,323

See Notes to Financial Statements.

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**Peoples Financial Corporation 401(k) Profit Sharing Plan
Notes to Financial Statements**

NOTE A DESCRIPTION OF PLAN

The following description of the Peoples Financial Corporation (the Company) 401(k) Profit Sharing 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 1st or July 1st, 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

A summary of employer contributions is as follows:

Company Matching Contributions: Contributions are determined solely by the Company s Board of Directors. Contributions can be up to a dollar amount or percentage of included compensation that is uniformly determined by the Company for all eligible participants. In addition, the Company may make a discretionary matching contribution to all eligible participants that is allocated equally as a percentage of 401(k) deferrals that do not exceed a specific dollar amount or a percentage of included compensation that is uniformly determined by the Company. The matching contribution is allocated among the investment options according to each participant s instructions.

Company Nonelective Contributions: Contributions are determined solely by the Company s Board of Directors. The allocation for each eligible participant is a uniform percentage of included compensation. Qualified nonelective contributions will be allocated as a uniform percentage of included compensation to all eligible participants who are non-highly compensated employees. The Company nonelective contributions are allocated among the investment options according to each participant s instructions.

Participant Accounts

Each participant will have separate accounts established to reflect the employee s interest under the Plan. A summary of the possible accounts is as follows:

Employer Discretionary Matching Contribution Account:

This account is credited quarterly with the amount of the Employer Discretionary Matching Contribution allocable to the participant, and with the employee s share of

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the net income (or loss) of the Plan. The employee's interest in this account will always be 100% vested.

Employee Salary Reduction and Voluntary Contribution Account:

Each Participant's account is credited with the participant's contribution, allocations of the account's earnings, and forfeitures of terminated participants' non-vested accounts. A participant may authorize a contribution to the Plan on the employee's behalf, a salary reduction contribution of not less than 1% nor more than the maximum amount allowable under the Internal Revenue Code. The employee's interest in this account will always be 100% vested.

Company Nonelective Contribution Account:

This account is credited with discretionary employer contributions and allocation of plan earnings. The allocation for each eligible participant is a uniform percentage of included compensation. Funds contributed by the employer into this fund are allocated among the investment options according to each participant's instructions. The Company nonelective contributions are vested under a six-year graded vesting schedule based on each employee's length of service.

Employee Rollover Contribution Account:

This account is credited with any rollover contributions, if any, made to the Plan and with the employee's share of net income (or loss) of the Plan. This account will always be 100% vested.

Merged Plan Asset Account:

This account is maintained for those participants who had account balances in the Gulf National Bank Profit Sharing Plan. This account is credited with the allocable net income (or loss) of the Plan. The employee's interest in this account will always be 100% vested.

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.

The Plan also allows for certain hardship withdrawals prior to termination of employment. In no event may the amount of any hardship distribution requested exceed fifty percent of the Participant's vested account balance less earnings on the Participant's 401(k) deferrals credited.

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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.

Participant Loans

Participant loans are not permitted by the Plan.

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.

Investment Valuation

The Plan has invested in the MetLife Stable Value Fund, a group trust which is a holder of a Met Managed Guaranteed Interest Contract (GIC). The investment contract is stated at fair value and is adjusted to contract value (which represent contributions made under the contract, plus interest earned, less withdrawals and administrative expenses) on the Statement of Net Assets Available for Benefits. As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the FSP, the Statement of Net Assets Available for Benefits presents the fair value of the Plan's investment contract as well as the adjustment of the investment contract from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

On January 1, 2008, the Plan adopted Financial Accounting Standards Board Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a framework for measuring assets and liabilities at fair value and also requires additional disclosures about fair value measures. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the

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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.

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.

Purchases and sales of securities are recorded on trade-date basis. 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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE C PARTICIPANTS INVESTMENTS

All investments are held by Fidelity Investments in an account managed by 401(k) Plus, Inc., the administrator of the Plan. Investments representing more than 5% of net assets were as follows:

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| December 31, | 2008 | 2007 |
|---|--------------|--------------|
| GIC Group Annuity Contract: | | |
| MetLife Stable Value Fund | \$ 4,019,981 | \$ 2,389,955 |
| Registered investment companies (Mutual Funds): | | |
| Fidelity U.S. Bond Index Fund | 922,257 | 1,211,095 |
| Fidelity Spartan U.S. Equity Index Fund | 483,053 | 1,229,047 |
| FBR Focus Fund | | 1,779,408 |
| Brandywine Blue Fund | 734,245 | 1,747,873 |
| BlackRock U.S. Opportunities Fund | 705,707 | |
| Investment in common stock: | | |
| Peoples Financial Corporation, common stock | 1,068,196 | 1,491,085 |

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2008.

Mutual funds: Valued at the closing price reported on the active market on which the funds are traded

Common stock: Valued at the closing price reported on the active market on which individual securities are traded

Investment contract: Valued at the fluctuating value of the separate account assets backing the contract

Wrap contract: Valued based on the wrap contract fees provided by the insurance company

The following table sets forth by level, within the fair value hierarchy, the Plan's assets measured at fair value on a recurring basis as of December 31, 2008:

| | Total Assets at Fair Value | Fair Value Measurement Using | | |
|---------------------|-------------------------------|------------------------------|-------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Mutual funds | \$4,492,367 | \$4,492,367 | \$ | \$ |
| Common stock | 1,068,196 | 1,068,196 | | |
| Investment contract | 3,987,190 | | 3,987,190 | |
| Wrap contract | 32,791 | | | 32,791 |
| | \$9,580,544 | \$5,560,563 | \$3,987,190 | \$32,791 |

The following table sets forth a summary of changes in the fair value of the Wrap contract, the Plan's only Level 3 asset, for the year ended December 31, 2008:

| | |
|--|-----------|
| Fair Value, beginning of year | \$ 15,814 |
| Unrealized gain relating to instruments still held at the reporting date | 16,977 |
| Fair Value, end of year | \$ 32,791 |

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During the year ended December 31, 2008, the Plan's investments depreciated in fair value and realized losses on sales as follows:

| | |
|--|------------------|
| Mutual funds | \$ 2,439,460 |
| Peoples Financial Corporation common stock | 258,864 |
| | |
| Total | \$ 2,698,324 |

NOTE D METLIFE STABLE VALUE FUND

The MetLife Stable Value Fund (the Fund) is fully-benefit responsive. The average yield and crediting interest rates for such investments were (10.29%) and 4.60%, respectively, for 2008 and 5.77% and 5.30%, respectively, for 2007. The average yield credited to participants was 5.11% and 5.10% for 2008 and 2007. These investments were rated Aa2 and AA at December 31, 2008.

In a Met Managed GIC, the assets are invested in a MetLife separate account. MetLife guarantees principal and accrued interest, based on credited interest rates, for participant-initiated withdrawals as long as the contract remains active. Interest is credited to the contract at interest rates that reflect the performance of the underlying portfolio. The credited rate resets quarterly and has a minimum interest rate of 0%. MetLife resets the rate by amortizing the difference between the market value of the portfolio and the guaranteed value over the weighted average duration of the Fund's investments. Participants receive the principal and accrued earnings credited to their accounts upon withdrawal for allowed events. These events include transfers to other investment options, and payments due to retirement, termination of employment, disability, death and in-service withdrawals as permitted by the Plan. The Plan may terminate its participation in the contract at any time. If it chooses to do so, the Plan will receive the lesser of the guaranteed or market value.

The sensitivity of an increase or decrease in the Fund's market yield, with no other change in the duration of the underlying portfolio and no contributions or withdrawals, on the weighted average crediting rate for 2008 and for each quarter in 2009 was as follows:

| | Actual 12/31/2008 | Projected 3/31/2009 | Projected 6/30/2009 | Projected 9/30/2009 | Projected 12/31/2009 |
|-----------------|----------------------|------------------------|------------------------|------------------------|-------------------------|
| Increase of 50% | 3.60% | 3.97% | 4.32% | 4.66% | 4.98% |
| Increase of 25% | 3.60% | 3.88% | 4.14% | 4.40% | 4.64% |
| Decrease of 50% | 3.60% | 3.60% | 3.59% | 3.59% | 3.59% |
| Decrease of 25% | 3.60% | 3.69% | 3.78% | 3.86% | 3.94% |

The sensitivity of an increase or decrease in the Fund's market yield, with no change in the duration of the underlying portfolio, no contributions and the immediate withdrawal of 10% of the fund, on the weighted average crediting rate for 2008 and for each quarter in 2009 was as follows:

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| | Actual 12/31/2008 | Projected 3/31/2009 | Projected 6/30/2009 | Projected 9/30/2009 | Projected 12/31/2009 |
|-----------------|----------------------|------------------------|------------------------|------------------------|-------------------------|
| Increase of 50% | 3.60% | 2.95% | 3.34% | 3.72% | 4.08% |
| Increase of 25% | 3.60% | 3.15% | 3.45% | 3.73% | 4.00% |
| Decrease of 50% | 3.60% | 3.60% | 3.60% | 3.60% | 3.59% |
| Decrease of 25% | 3.60% | 3.48% | 3.57% | 3.67% | 3.76% |

NOTE E PARTY-IN-INTEREST TRANSACTIONS

Common stock of the Company, the Plan sponsor, is available as one of the investment options for participants to choose from. The Plan purchased \$110,691 (6,350 shares) and sold \$274,715 (13,870 shares) of the Company's common stock during the year ended December 31, 2008. Shares held by the Plan at December 31, 2008 and 2007 had a market value of \$1,068,196 and \$1,491,085, respectively. In 2008, the Plan received Cash dividends of approximately \$35,000 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 and Trust Division of The Peoples Bank, Biloxi, Mississippi, a wholly owned subsidiary of the Plan Sponsor, serves as trustee of the Plan. The participants in the Plan direct the investment of their accounts.

NOTE F CONCENTRATION OF MARKET RISK

The Plan has invested a significant portion of its assets in the Company's common stock, which approximates 10% of the Plan's net assets available for benefits as of December 31, 2008. As a result of the concentration, any significant decline in market value of the stock could adversely affect individual participant accounts and the net assets of the Plan.

NOTE G COST OF PLAN ADMINISTRATION

The Company absorbs the cost of plan administration. These costs were \$16,295 and \$19,586 for the years ended December 31, 2008 and 2007, respectively.

NOTE H 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.

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NOTE I TAX STATUS

The Plan has received a determination letter from the Internal Revenue Service, dated September 18, 2001, stating that the Plan qualifies under the appropriate sections of the Internal Revenue Code (IRC) and is, therefore, not subject to tax under present income tax law.

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**Peoples Financial Corporation 401(k) Profit Sharing Plan
Schedule H, Line 4i Schedule of Assets (Held at End of Year)
December 31, 2008**

| (a) Identity of issuer or similar party (b) | Description of assets (c) | Cost (d) | Fair Value (e) |
|---|--|----------|----------------|
| | GIC Group Annuity Contracts: | | |
| Metropolitan Life Insurance Co. | MetLife Stable Value Fund 31,634 shares | N/A | \$ 4,019,981 |
| | Registered investment companies (Mutual Funds): | | |
| Fidelity Investments | Fidelity U.S. Bond Index Fund 85,473 shares | N/A | 922,257 |
| Fidelity Investments | Fidelity Spartan U.S. Equity Index Fund 15,143 shares | N/A | 483,054 |
| American Funds | American Funds Fundamental Investors Fund 5,663 shares | N/A | 141,227 |
| Baron Asset Investments | Baron Growth Fund 3,264 shares | N/A | 100,574 |
| American Funds | American Funds Cap World Growth & Income Fund 7,607 shares | N/A | 201,127 |
| American Funds | American Funds Europacific Growth Fund 8,971 shares | N/A | 247,246 |
| First Pacific Advisors | FPA Crescent Fund 9,527 shares | N/A | 186,638 |
| T. Rowe Price Funds | T. Rowe Price Mid Cap Value Fund 11,421 shares | N/A | 162,411 |
| Brandywine Funds | Brandywine Blue Fund 37,046 shares | N/A | 734,245 |
| Third Avenue Funds | Third Avenue Real Estate Value Fund 6,129 shares | N/A | 91,631 |
| American Century | LIVESTRONG 2015 Portfolio Fund 26,651 shares | N/A | 240,927 |
| American Century | LIVESTRONG 2025 Portfolio Fund 18,051 shares | N/A | 159,394 |
| American Century | LIVESTRONG 2035 Portfolio Fund 6,488 shares | N/A | 56,579 |
| Gamco Investors | Gamco Westwood Fund 5,490 shares | N/A | 59,350 |
| BlackRock | BlackRock U.S. Opportunities Portfolio Fund 29,916 shares | N/A | 705,707 |
| | Investment in common stock: | | |
| * Peoples Financial Corporation | Common Stock 60,011 shares | N/A | 1,068,196 |
| | Total | | \$ 9,580,544 |

* Represents party-in-interest

N/A

Due to Plan
being fully
participant
directed, such
values are not
required.

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 401(k)
Profit Sharing 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 26, 2009
Date
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