
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934

January 1, 2005
Date of Report (Date of Earliest Event Reported)

THE PEOPLES HOLDING COMPANY

(Exact Name of Registrant as Specified in its Charter)

Mississippi
(State or Other Jurisdiction
of Incorporation)

1-13253
(Commission File Number)

64-0676974
(I.R.S. Employer
Identification Number)

209 Troy Street, Tupelo, Mississippi 38802-0709
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including area code: (662) 680-1001

(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 1.01. Entry into a Material Definitive Agreement.

In connection with the merger transaction between The Peoples Holding Company, a Mississippi corporation (“Peoples”), and Heritage Financial Holding Corporation, a Delaware corporation (“Heritage”), described in Item 2.01 below, Peoples and its wholly-owned subsidiary, The Peoples Bank & Trust Company, a Mississippi-chartered bank (“Peoples Bank”), entered into an Employment Agreement with Larry R. Mathews, and Heritage and its wholly-owned subsidiary, Heritage Bank, an Alabama-chartered bank, entered into a Termination and Release Agreement (the “Release Agreement”) with Mr. Mathews. Both the Employment Agreement and the Release Agreement are effective as of January 1, 2005.

Employment Agreement. Under the Employment Agreement, Mr. Mathews will serve as President of the Alabama Division of Peoples Bank. The initial term of the Employment Agreement is five years, which term shall automatically renew for additional one-year periods thereafter unless Peoples or Peoples Bank gives Mr. Mathews notice of non-renewal at least 6 months prior to the expiration of the then-current term. The Employment Agreement provides for an annual minimum base salary of \$232,000, and Mr. Mathews is eligible to receive bonuses in accordance with Peoples’ bonus policies in effect from time to time. Also, Mr. Mathews is entitled to participate in the benefit plans and programs established by Peoples and Peoples Bank for similarly-situated executives.

If Mr. Mathews’ employment with Peoples Bank is terminated on account of his death or disability or for Cause (as defined in the Employment Agreement), or if Mr. Mathews terminates his employment without Good Reason (as defined in the Employment Agreement), Peoples and/or Peoples Bank is obligated to pay to Mr. Mathews (or his estate in the case of his death) all earned but unpaid salary and benefits through the date of termination. If Peoples Bank terminates Mr. Mathews’ employment without Cause, or if Mr. Mathews terminates his employment for Good Reason (excluding a termination under certain circumstances related to a Change of Control (as defined in the Employment Agreement)), Peoples and/or Peoples Bank shall pay to Mr. Mathews in equal installments over the succeeding twelve-month period an amount equal to (i) Mr. Mathews’ annual base salary at the time of termination, (ii) Mr. Mathews’ average bonus for the preceding two whole calendar years, and (iii) the annual lease payment on the motor vehicle used by Mr. Mathews. Peoples and/or Peoples Bank must also pay Mr. Mathews’ COBRA premium for the 12-month period commencing on the date of the termination of his employment. Finally, if Mr. Mathews’ employment is terminated under certain circumstances related to a Change of Control, then Peoples and/or Peoples Bank must pay Mr. Mathews in a lump sum within 10 business days following such termination his base salary prorated through the date of termination and any accrued vacation, each to the extent not previously paid. Peoples and/or Peoples Bank must also pay to Mr. Mathews the Severance Amount in accordance with the Employment Agreement. Subject to the provisions of the Employment Agreement, the Severance Amount is equal to 2.99 times Mr. Mathews’ annual base salary at the date of termination, plus 2.99 times his average annual bonus for the period of his employment with Heritage and Heritage Bank.

The Employment Agreement also contains covenants relating to non-competition, the disclosure of information and the ownership of intellectual property that are effective both during and after the term of Mr. Mathews’ employment with Peoples Bank.

The foregoing description of Mr. Mathews’ Employment Agreement is qualified in its entirety by reference to the Employment Agreement, a copy of which is attached hereto as Exhibit 10.11 and incorporated by reference into this Item 1.01.

Release Agreement. Pursuant to the Release Agreement, Mr. Mathews' employment agreement with Heritage and Heritage Bank has been terminated. Mr. Mathews has also acknowledged and agreed that neither Heritage nor Heritage Bank owe him any payments or benefits. Under the Release Agreement, Mr. Mathews has forever discharged and irrevocably released Heritage and Heritage Bank, and their respective shareholders, directors, officers, employees, affiliates, successors and assigns, from any claims, demands, liabilities or otherwise Mr. Mathews may now or in the future have against Heritage or Heritage Bank arising in connection with Mr. Mathews' employment agreement with Heritage and Heritage Bank. Heritage and Heritage Bank have similarly discharged and released Mr. Mathews from any claims, demands, liabilities or otherwise which either may now or in the future have against Mr. Mathews arising in connection with Mr. Mathews' employment and the termination of the employment agreement. Heritage and Heritage Bank, on the one hand, and Mr. Mathews, on the other hand, each have agreed (i) to indemnify the other party for any losses, damages or other expenses arising in connection with claims or matters purported to be released by the Release Agreement and (ii) to refrain from asserting any claim or demand based on any matter purported to be released by the Release Agreement.

The foregoing description of the Release Agreement is qualified in its entirety by reference to the Release Agreement, a copy of which is attached hereto as Exhibit 10.12 and incorporated by reference into this Item 1.01.

Item 2.01. Completion of Acquisition or Disposition of Assets

Effective January 1, 2005, Heritage merged with and into Peoples and Heritage Bank merged with and into Peoples Bank pursuant to the Agreement and Plan of Merger dated as of July 15, 2004, as amended, by and among Peoples, Peoples Bank, Heritage and Heritage Bank (the "Merger Agreement"). Peoples and Peoples Bank were the surviving entities in the respective mergers. Heritage was a registered bank holding company headquartered in Decatur, Alabama. As of September 30, 2004, Heritage had total assets of approximately \$544 million, deposits of approximately \$389 million and total shareholders' equity of approximately \$32 million. Peoples, as the successor by merger to Heritage, now operates eight banking offices in Decatur, Huntsville and Birmingham, Alabama. The deposits of Heritage Bank are insured by the Federal Deposit Insurance Corporation.

Under the terms of the Merger Agreement, each stockholder of Heritage had the right to elect to receive for all of such stockholder's shares of Heritage common stock either (i) \$6.25 in cash per share of Heritage common stock, (ii) 0.20 shares of Peoples common stock per share of Heritage common stock or (iii) a combination consisting of cash for 40% of such shares of Heritage common stock and shares of Peoples common stock for 60% of such shares of Heritage common stock. Heritage stockholders who did not elect the type of merger consideration they wished to receive were deemed to have elected to receive the combination of cash and shares of Peoples common stock described above. Pursuant to the Merger Agreement, regardless of a Heritage stockholder's election, all elections were limited by the requirements that not less than 60% or more than 65% of the aggregate shares of Heritage common stock owned by Heritage stockholders be exchanged for Peoples common stock and not less than 35% or more than 40% of the aggregate shares of Heritage common stock owned by Heritage stockholders be exchanged for cash. Heritage stockholders will receive cash in lieu of fractional shares of Peoples common stock in an amount equal to the fraction of a share of Peoples common stock otherwise issuable multiplied by \$33.75, which is the average closing price of one share of Peoples common stock on the American Stock Exchange for the ten trading days immediately preceding the last trading day prior to the closing date of the merger.

Peoples expects to pay approximately \$23 million in cash and issue approximately 1.37 million shares of Peoples common stock in the transaction. Peoples will fund the cash portion of the merger consideration through available cash and through the issuance of \$31 million of trust preferred securities.

There are no material relationships between Heritage's stockholders and Peoples or any of its affiliates, or any director or officer of Peoples, or any associate of any such director or officer, in each case other than in respect of the transactions contemplated by the Merger Agreement.

The press release announcing the completion of the merger, filed as Exhibit 99.1 to Peoples' Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on January 3, 2005, is incorporated by reference into this Item 2.01. The foregoing description of the merger and Merger Agreement is qualified in its entirety by reference to the Agreement and Plan of Merger dated July 15, 2004, as amended, by and among Peoples, Peoples Bank, Heritage and Heritage Bank, which is Appendix A-1 to the Prospectus dated November 26, 2004 filed by Peoples with the SEC pursuant to Rule 424(b)(3) under the Securities Act of 1933, as amended, on November 29, 2004, and which is incorporated by reference into this Item 2.01.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

In connection with the merger of Heritage with and into Peoples described in Item 2.01 above, Larry R. Mathews was appointed President of the Alabama Division of Peoples Bank. Mr. Mathews, 51, served prior to the merger as President and Chief Executive Officer of Heritage and Heritage Bank. Mr. Mathews joined Heritage Bank as President in 2002. He served as Chief Executive Officer of The Bank in Birmingham, Alabama from 2000 through 2001. Prior to his employment with The Bank, he served as Alabama Regional President of BancorpSouth Bank from 1998 to 1999. The description of Mr. Mathews' Employment Agreement in Item 1.01 above is incorporated by reference into this Item 5.02.

In connection with the merger, Peoples' Board of Directors also elected Harold B. Jeffreys and Neal A. Holland, Jr. to serve as directors of Peoples, effective January 1, 2005. Mr. Jeffreys and Mr. Holland will each stand for election at Peoples' 2005 annual meeting of shareholders. The committee assignments for Mr. Jeffreys and Mr. Holland will be determined at a future meeting of Peoples' Board of Directors.

There are no related party transactions between Peoples and/or Peoples Bank, on the one hand, and Mr. Mathews, Mr. Jeffreys or Mr. Holland, on the other hand.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited financial statements of Heritage as of and for the fiscal year ended December 31, 2003 are attached hereto as Exhibit 99.2. The unaudited financial statements of Heritage as of and for the nine-month period ended September 30, 2004 are attached hereto as Exhibit 99.3.

(b) Pro Forma Financial Information.

The required pro forma financial information as of and for the fiscal year ended December 31, 2003 and as of and for the nine-month period ended September 30, 2004 is attached hereto as Exhibit 99.4.

(c) Exhibits.

The following exhibits are filed herewith:

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated as of July 15, 2004 by and among The Peoples Holding Company, The Peoples Bank & Trust Company, Heritage Financial Holding Corporation and Heritage Bank, as amended by Amendment No. 1 to Agreement and Plan of Merger dated November 22, 2004 (incorporated by reference to Annex A-1 to the Prospectus dated November 26, 2004 filed by The Peoples Holding Company with the SEC pursuant to Rule 424(b)(3) under the Securities Act of 1933, as amended, on November 29, 2004 (File No. 333-119572)).
10.11	Employment Agreement dated as of July 14, 2005 by and between Larry R. Mathews, The Peoples Holding Company and The Peoples Bank & Trust Company.
10.12	Termination and Release Agreement dated as of January 1, 2005 by and among Larry R. Mathews, Heritage Financial Holding Corporation and Heritage Bank.
23	Consent of Porter Keadle Moore, LLP.
99.1	Press release dated January 3, 2005 announcing Peoples' completion of its acquisition of Heritage (incorporated by reference to Exhibit 99.1 to Peoples' Current Report on Form 8-K filed with the SEC on January 3, 2005 (File No. 001-13253).
99.2	Audited financial statements of Heritage as of and for the fiscal year ended December 31, 2003 (incorporated by reference to Heritage's Annual Report on Form 10-K for the year ended December 31, 2003, including the report of Porter Keadle Moore, LLP on such audited financial statements (File No. 000-31823), filed with the SEC on March 30, 2004).
99.3	Unaudited financial statements of Heritage as of and for the nine-month period ended September 30, 2004 (incorporated by reference to Heritage's Quarterly Report on Form 10-Q for the period ended September 30, 2004 (File No. 000-31823), filed with the SEC on November 8, 2004).
99.4	Pro forma financial information as of and for the fiscal year ended December 31, 2003 and as of and for the nine-month period ended September 30, 2004 (incorporated by reference to pages 20 through 28 of the Prospectus dated November 26, 2004 filed by The Peoples Holding Company with the SEC pursuant to Rule 424(b)(3) under the Securities Act of 1933, as amended, on November 29, 2004 (File No. 333-119572)).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE PEOPLES HOLDING COMPANY

Registrant

DATE: January 6, 2005

/s/ Stuart R. Johnson

Stuart R. Johnson
Executive Vice President & Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
10.11	Employment Agreement dated as of July 14, 2005 by and between Larry R. Mathews, The Peoples Holding Company and The Peoples Bank & Trust Company.
10.12	Termination and Release Agreement dated as of January 1, 2005 by and among Larry R. Mathews, Heritage Financial Holding Corporation and Heritage Bank.
23	Consent of Porter Keadle Moore, LLP.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is entered into as of the 14th day of July, 2004, by and between **Larry R. Mathews** (“Employee”), **The Peoples Holding Company**, a Mississippi corporation (“Peoples”), and **The Peoples Bank & Trust Company**, a Mississippi banking association, an affiliate of Peoples (the “Company”).

WITNESSETH:

WHEREAS, the Company and/or Peoples desires to employ Employee on the terms and conditions set forth in this Agreement and Employee desires to be employed by the Company on such terms and conditions;

NOW, THEREFORE, in consideration of the respective representations, warranties and covenants hereinafter set forth, the parties agree as follows:

1. **EMPLOYMENT.** The Company agrees to employ Employee and Employee agrees to remain in the employ of the Company, upon the terms and subject to the conditions provided herein.
2. **TERM.**
 - A. This Agreement shall be effective as of the Effective Time, as defined in that certain Agreement and Plan of Merger dated July 14, 2004, by and among the Company and Peoples and Heritage Financial Holding Corporation (“Heritage Corporation”) and Heritage Bank (the “Merger Agreement”) (the “Employment Effective Date”). This Agreement shall be null and void ab initio and of no further force and effect if the Effective Time does not occur or the Merger Agreement is terminated prior to the Effective Time.
 - B. Unless earlier terminated as provided herein, Employee’s employment under this Agreement shall be for a term of five (5) years, and such extension periods as may be applicable pursuant to this Section 2 (the “Term”), commencing on the Employment Effective Date. This Agreement shall be automatically extended for additional one (1)-year periods, unless the Company or Peoples gives notice of intent not to renew at least six (6) months prior to the fifth (5th) anniversary of this Agreement or prior to any anniversary marking the end of a one (1)-year renewal term hereunder.
3. **POSITION, DUTIES AND RESPONSIBILITIES.**
 - A. Employee shall serve as President of the Alabama Division of The Peoples Bank & Trust Company (the “Alabama Division”) or in such other capacity or capacities as shall be mutually agreed upon in writing from time to time by Employee and Company. Employee shall report directly to the President and Chief Executive Officer of Peoples (the “Peoples CEO”) and to the Board of Directors of Peoples.

- B. Employee's duties shall include the responsibility for the operations of the Alabama Division consistent with Peoples' policies as they currently exist and as they may change over time and such other duties as may from time to time be delegated to Employee by the Peoples CEO. Employee shall perform services when and as directed by the Company and the Peoples CEO and as more fully described below. Except with Employee's prior written consent, Employee's assigned duties shall not be inconsistent with his position.
- C. Employee shall devote substantially all of his business time, attention and efforts in the faithful performance of his duties hereunder. Employee may devote reasonable periods of time to serve as a director or advisor to other organizations, to charitable and community activities, and to managing his personal investments, provided that such activities do not materially interfere with the performance of his duties to the Company or Peoples and are not competitive with the interests of the Company or Peoples.
- D. Subject to the policies, procedures and code of ethics of Peoples as in effect from time to time, the budget of the Alabama Division then in effect and all applicable laws and regulations, Employee shall have exclusive authority over recruiting, hiring, firing and setting compensation of all employees of the Alabama Division.
- E. Employee represents and warrants that he is not bound by any employment, consulting, non-competition, confidentiality, finders, marketing or other agreement or arrangement that would, or might reasonably be expected to, prohibit or restrict him from performing his duties and obligations.

4. **COMPENSATION AND BENEFITS.**

- A. The Company and/or Peoples shall pay Employee an annual salary of Two Hundred Thirty-Two Thousand Dollars (\$232,000), payable in equal installments in accordance with the Company and/or Peoples's regular payroll policy, subject to tax withholding for such taxes as may be required by law to be withheld. Employee may receive bonuses in accordance with Peoples' policies in effect from time to time and may be eligible for salary increases as may be mutually agreeable from time to time. Employee's annual salary may not be decreased at any time below \$232,000 without the written consent of Employee.
- B. Employee is authorized to incur necessary and customary expenses in connection with the business of the Company, including expenses for entertainment, trade association meetings, travel, promotion and similar matters, consistent with Peoples' and the Company's policies as in effect from time to time. The Company and/or Peoples will pay or reimburse Employee for such expenses upon presentation by Employee of appropriate records to verify such expense.

- C. Employee shall be entitled to the use of a leased or Company-owned six-passenger motor vehicle, subject to the Company's policies. Employee shall be entitled to all reasonable operating and maintenance expenses for such vehicle subject to the Company's policies.
- D. Employee shall be entitled to the use of a cellular telephone and to reimbursement of all reasonable expenses related to use of such cellular telephone, subject to the Company's policies.
- E. The Company and/or Peoples shall reimburse Employee for expenses for dues and capital assessments for membership in the Greystone Golf & Country Club and for other civic club memberships, as authorized by the Board of Directors of the Company; provided that if Employee ceases his membership in any such club and any bond or other capital payment made by the Company (or its predecessors) are repaid to Employee, Employee shall pay over such payments to the Company.
- F. Employee shall be entitled to four (4) weeks of paid vacation per year. The vacation to which Employee is entitled pursuant to this Section 2.9 shall be available under the same terms and conditions as are applicable to similarly situated executive personnel of the Company. Employee shall take into consideration the needs of the Company, Peoples and their affiliates in setting his vacation schedule.
- G. Employee shall also be entitled to participate in such plans, programs, policies and practices as may be sponsored or maintained, from time to time, by the Company or Peoples for the benefit of similarly situated executives or employees. All prior years of service with Heritage Corporation, Heritage Bank and their affiliates shall be counted for vesting and eligibility purposes under such plans, programs, policies and practices.

5. **TERMINATION.**

- A. If Employee becomes physically or mentally Disabled, as determined in the good faith judgment of the Board of Directors of the Company, Employee's employment may be terminated upon sixty (60) days written notice. The term "Disability" shall mean Employee's physical or mental incapacity that renders him incapable of performing the essential functions of the duties required of him by this Agreement for one hundred fifty (150) or more consecutive days, even with reasonable accommodation.
- B. Employee may be terminated for cause ("Cause") by the Company if:
 - 1. Employee is convicted of, or enters a plea of *nolo contendere* with respect to, a felony or a crime involving moral turpitude or unethical conduct that, in the good faith opinion of the Board of Directors of the Company, would materially impair Employee's ability to perform his duties hereunder or would reasonably be expected to materially impair the business reputation of Peoples, the Company or any of their affiliates;

2. In the good faith opinion of the Board of Directors of the Company, Employee has intentionally failed to perform the duties reasonably assigned to him and such failure is not cured within thirty (30) days of receipt by Employee of written notice thereof, provided Employee's assigned duties shall not be inconsistent with his position;
 3. Employee willfully and knowingly violates any statute, rule or regulation under the federal banking laws or the banking laws of any state that, in the good faith opinion of the Board of Directors of the Company, would materially impair Employee's ability to perform his duties hereunder or would reasonably be expected to materially impair the business reputation of Employee, Peoples, the Company or any of their affiliates; or
 4. In the good faith opinion of the Board of Directors of the Company, Employee materially breaches any provision of this Agreement and such failure is not cured within thirty (30) days of receipt by Employee of written notice thereof.
- C. Employee may terminate Employee's employment upon written notice to the Company at any time for Good Reason. The term "Good Reason" shall mean (i) a significant diminution of duties from those assigned to Employee at commencement of this Agreement, (ii) a relocation of Employee outside of the counties of Jefferson and Shelby, Alabama, without Employee's consent, (iii) the failure by the Company to elect Employee the President of the Alabama Division throughout the term of this Agreement, (iv) any material breach of this Agreement by the Company which is not cured within thirty (30) days of receipt by the Company of written notice thereof, (v) for any reason within one hundred eighty (180) days after the occurrence of a Change in Control (as hereinafter defined), or (vi) following a Change in Control, a reduction in Employee's base salary or any failure to pay Employee any compensation or benefits to which he is entitled within five (5) days of the date due, or the failure by the Company and Peoples to (A) continue in effect (without reduction in benefit level and/or reward opportunities) any material compensation or employee benefit plan in which Employee was participating at any time within ninety (90) days preceding the date of a Change in Control or at any time thereafter, unless such plan is replaced with a plan that provides substantially equivalent compensation or benefits to Employee or (B) provide Employee with compensation and benefits, in the aggregate, at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each other employee benefit plan, program, policy and practice in which Employee was participating at any time within ninety (90) days preceding the date of a Change in Control or at any time thereafter.
1. The term "Change in Control" shall have the meaning ascribed to it under The Peoples Holding Company 2001 Long-Term Incentive Plan, as the same may be amended, modified, superceded, restated or replaced, from time to time.

2. If Employee terminates for Good Reason under Section 5(C)(i), (ii), (iii) or (iv) hereof, then the Company and/or Peoples shall pay Employee: (i) an amount equal to his annual base salary at the time of termination; (ii) an amount equal to his average bonus for the immediately preceding two (2) whole calendar years; and (iii) an amount equal to the then current annual lease payment on the motor vehicle described in Section 4(C) (collectively, the "Post-Termination Payment Amount"). The Company and/or Peoples shall also pay Employee's COBRA premium for a period of one (1) year (the "COBRA Payments"). The Post-Termination Payment Amount and the COBRA Payments will be paid during the twelve-month period following the date of termination in equal installments in accordance with the Company's and/or Peoples' regular payroll policy subject to tax withholding for taxes as required by law. If Employee terminates for Good Reason pursuant to Section 5(C)(v) or Section 5(C)(vi) hereof, the Company and/or Peoples shall pay Employee the payments and provide the benefits set forth in Section 5(F) below, in lieu of the provision of the Post-Termination Payment and the COBRA Payment hereunder (subject to section 5.F.4. herein.).
- D. The Company may terminate Employee's employment without cause and Employee may terminate employment without Good Reason, each upon four (4) weeks notice to the affected party. If Employee is terminated without cause, Employee will be entitled to receive the Post-Termination Payment Amount and the COBRA Payments. The Post-Termination Payment Amount and the COBRA Payments will be paid during the twelve-month period following the date of termination and in equal installments in accordance with the Company's or Peoples' regular payroll policy subject to tax withholding for taxes as required by law. If Employee terminates employment without Good Reason, the Company and/or Peoples shall pay or provide the amounts and benefits specified in Section 5(E) hereof.
- E. If Employee's employment is terminated under Section 5(A) or 5(B) or Employee terminates employment in accordance with Section 5(D) hereof, then the Company and/or Peoples shall pay to Employee his salary through the date of termination as well as any benefits to which Employee may be entitled as of the date of termination under the benefit plans referred to in Sections 4 and 9 hereof or such greater amounts as may be required under applicable law.
- F. If (i) a Change in Control occurs after the date hereof and during the Term of this Agreement, and (ii) within three (3) years after such Change in Control (such three (3)-year period referred to herein as the "Change in Control Period") either the Company or Peoples shall terminate Employee's employment without Cause, or Employee shall terminate employment with the Company or Peoples for Good Reason, then Employee shall be entitled to the benefits provided below.
 1. "Accrued Obligations": No later than the tenth (10th) business day following the date of termination, the Company and/or Peoples shall pay

to Employee the sum of (i) Employee's annual base salary prorated through the date of termination to the extent not previously paid, and (ii) any accrued vacation pay to the extent not previously paid.

2. "Severance Amount": Subject to adjustment as provided in Section 5(F)(4) hereof, the "Severance Amount" shall be an amount equal to 2.99 times Employee's annual base salary in effect on the business day prior to the date of termination, plus 2.99 times Employee's average annual bonus for the period of Employee's employment with Heritage Corporation and Heritage Bank. The Company and/or Peoples shall within five (5) days of the date of termination set aside the Severance Amount in escrow for a period of not more than three (3) years with an escrow agent selected by the Company and/or Peoples and such escrow agent shall pay the Severance Amount to Employee, beginning on the tenth (10th) business day following the date of termination, in equal monthly installments, together with interest earned and received by the escrow agent since the date of last payment, with the number of total payments being equal to the number of whole months in the period commencing as of the date of termination and ending as of the last day of the Change in Control Period. The escrow agent will be directed to invest the Severance Amount (and any interest earned thereon) in (i) obligations issued or unconditionally guaranteed by the Government of the United States, (ii) certificates of deposit and interest-bearing deposit accounts of any domestic bank or trust company which has a combined capital and surplus of at least \$200,000,000, (iii) certificates of deposit with a maturity not to exceed ninety (90) days or (iv) such other investments as may be approved in writing by the Company and Employee. In the event of Employee's death after a termination for which a Severance Amount is payable, the escrow agent shall continue to pay to Employee's spouse or other named beneficiary the remaining obligation owed Employee under the terms of this Agreement and the escrow agreement. The Company and/or Peoples may, however, at its option, elect to pay the Severance Amount to Employee, or in the event of his death, his spouse or other named beneficiary, in the form of a lump-sum cash payment on or before the date the first monthly payment is due; or the Company and/or Peoples, at its option, at anytime during the term of the escrow agreement, may direct the escrow agent to pay Employee, Employee's spouse, or named beneficiary, as the case may be, the then remaining balance of the Severance Amount, plus any accrued and accumulated interest thereon, in the form of a lump-sum cash payment, and the rights and obligations of all parties under both this Agreement and escrow agreement shall be terminated. The severance amount set aside in escrow shall be invested according to the provisions of an escrow agreement and the interest earned included in the amount payable to Employee. All interest earned on the account shall be paid to Employee following the final severance payment.

3. “Other Benefits”: To the extent not previously provided, the Company and/or Peoples shall timely pay or provide to Employee and/or Employee’s family any other amounts or benefits required to be paid or provided pursuant to any separate plan, program, policy or practice or contract or agreement of the Company or Peoples in which Employee participated or under which Employee was covered as of the date of the termination of employment.
4. “Adjustment”: The Severance Amount and any other benefits provided under this Section 5(F), except those benefits required to be provided by law or under the terms of any separate plan, policy, program or arrangement in which Employee participated or under which Employee was covered as of the date of the termination of employment, shall be prorated using the ratio of the number of days remaining in the Change in Control Period as of the date of Employee’s termination of employment over the total number of days in such period; provided, however, in no event shall the so prorated Severance Amount be less than the amount that would have then been payable to Employee under Sections 5(C) or (D) if termination were pursuant to either such section and no Change of Control had occurred.
5. “Excess Parachute Payment”: Anything herein to the contrary notwithstanding, in the event that an independent accountant shall determine that any payment or distribution by the Company, Peoples or their affiliates to or for the benefit of Employee (whether paid or payable or distributed or distributable pursuant to the terms hereof or otherwise) (a “Payment”) would be nondeductible by the Company, Peoples or their affiliates for Federal income tax purposes because of Code §280G or would constitute an “excess parachute payment” (as defined in Code §280G), then the aggregate present value of amounts payable or distributable to or for the benefit of Employee pursuant hereto or pursuant to any other agreement with the Company, Peoples or their affiliates because of the occurrence of a Change in Control (such payments or distributions are hereinafter referred to as “Agreement Payments”) shall be reduced (but not below zero) to the Reduced Amount.

For purposes of this paragraph, the “Reduced Amount” shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any payment to be nondeductible by the Company, Peoples or their affiliates because of Code §280G or without causing any portion of the Payment to be subject to the excise tax imposed by Code §4999.

If the independent accountant reasonably acceptable to the Company and Employee determines that any Payment would be nondeductible by the Company, Peoples or their affiliates because of Code §280G or that any portion of the Payment would be subject to the excise tax imposed by

Code §4999, the Company shall promptly give Employee notice to that effect. Employee may then elect, in Employee's sole discretion, which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Agreement Payments equals the Reduced Amount, and shall advise the Company in writing of Employee's election within ten (10) days after Employee's receipt of such notice. If no such election is made by Employee within such ten (10) day period, the Company may elect which and how much of the Agreement Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Agreement Payments equals the Reduced Amount) and shall notify Employee promptly of such election. For purposes of this paragraph, present value shall be determined in accordance with Code §280G(d)(4).

All determinations made by the independent accountant under this paragraph shall be binding upon the Company and its affiliates and Employee and shall be made within sixty (60) days of a termination of employment of Employee. As promptly as practicable following such determination and the elections hereunder, the Company, Peoples or their affiliates, as applicable, shall pay to or distribute to or for the benefit of Employee such amounts as are then due to Employee hereunder and shall promptly pay to or distribute for the benefit of Employee in the future such amounts as become due to Employee hereunder.

As a result of the uncertainty in the application of Code §§280G and 4999 at the time of the initial determination by the independent accountant hereunder, it is possible that Agreement Payments will be made by the Company, Peoples and/or their affiliates which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company, Peoples and/or their affiliates should have been made ("Underpayment"), in each case, consistent with the calculation of the Reduced Amount hereunder. In the event that the independent accountant, based upon the assertion of a deficiency by the

Internal Revenue Service against Employee, the Company, Peoples or any of their affiliates which the independent accountant believes has a high probability of success, determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to Employee which Employee shall repay to the Company, Peoples or their affiliates, as applicable, together with interest at the applicable Federal rate provided for in Code §7872(f)(2); provided, however, that no amount shall be payable by Employee to the Company, Peoples or their affiliates, as applicable, if and to the extent such payment would not reduce the amount which is subject to taxation under Code §4999 or if the period of limitations for assessment of tax under Code §4999 against Employee shall have expired. If Employee is required to repay an amount under this Section, Employee shall repay such amount over a period of time not to

exceed one (1) year for each Twenty-Five Thousand Dollars (\$25,000.00) which Employee must repay to the Company, Peoples or their affiliates, as applicable. In the event that the independent accountant, based upon controlling precedent, determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company, Peoples or their affiliates, as applicable, to or for the benefit of Employee together with interest at the applicable Federal rate provided for in Code §7872(f)(2)(A).

The Company and/or Peoples shall bear all costs the independent accountants may incur in connection with any calculations contemplated herein.

6. If this Section 5(F) applies, Employee shall not be entitled to receive any payments or benefits under Section 5(C), 5(D) or 5(E) hereof.

G. If this Agreement terminates or expires in accordance with Section 2(B) hereof, Employee's employment and the obligations of Peoples and the Company hereunder shall cease and Employee shall be entitled to receive the payments and benefits described in Section 5(E) hereof.

6. **NON-COMPETITION.**

A. In consideration of the salary and benefit payments to be made to Employee under the terms of this Agreement, Employee hereby covenants to the Company and/or Peoples that during the Restricted Period (as hereinafter defined), he shall not, except on behalf of the Company and/or Peoples and its affiliates directly or indirectly, in his own capacity or through any other Person, whether as owner, consultant, executive, partner, member, manager, officer, director, venturer, agent, through stock ownership, investment of capital, lending of money or property, rendering of services (including, without limitation, rendering services as an employee) or otherwise, engage in the Business (as hereinafter defined) or any business similar thereto in the Territory (as hereinafter defined).

B. During the Restricted Period, Employee covenants that he will not, directly or indirectly, in his own capacity or through any other Person (as defined above) (i) solicit or contact for business purposes any existing customer, supplier, or prospective customer or supplier, of the Company, Peoples or any of their affiliates for the purpose of competing with the Business for himself or for any other Person, (ii) induce, or attempt to induce, any employees, agents, consultants or suppliers of or to the Company, Peoples or any of their affiliates, or any other Person to do anything from which Employee is restricted by reason of this Section 6, (iii) interfere with existing or proposed agreements or other arrangements, or knowingly interfere with future agreements or other arrangements, between the Company, Peoples or any of their affiliates on the one hand and any other Person on the other hand or (iv) induce, attempt to induce, solicit, offer or aid others to offer employment or engagement as a consultant or agent to anyone who is an employee, agent or consultant of or to the Company, Peoples or any of their affiliates.

- C. "Territory" means the counties of Jefferson, Madison, Morgan and Shelby, Alabama or any other county in which Employee may be assigned to work for the Company, Peoples or their affiliates.
- D. The "Restricted Period" means:
1. The period beginning with the date Employee commences employment and ending two (2) years after Employee ceases to be an employee of the Company, Peoples or any of their affiliates; however, this Subsection (D)(1) shall not apply if Subsection (D)(2) or (D)(3) apply.
 2. If Employee is terminated under Section 5(C) or 5(D) hereof and such termination is not in connection with a Change in Control, then the Restricted Period means the period beginning with the date Employee commences employment and ending one (1) year from the date of termination.
 3. If the termination occurs pursuant to Section 5(F), then the Restricted Period means the period beginning with the date Employee commences employment and ending three (3) years after the date hereof.
- E. "Business" means commercial banking or the lending of money, to the extent actively engaged in by the Alabama Division of the Company or Peoples during the Restricted Period.
- F. The Restricted Period shall be extended by the period of time, if any, during which Employee is in violation of Employee's obligations under this Section 6. If Employee violates the provisions of this Section 6, then, in addition to, and not in lieu of, any other remedy available to the Company, Peoples or their affiliates, any obligation of the Company and/or Peoples to make any payment under Section 5 including, without limitation, any remaining payments of the Post-Termination Payment Amount, the Severance Amount and/or COBRA Payments shall terminate.
- G. 1. Employee acknowledges that a breach of the covenants contained in this Agreement, including the covenants contained in this Section 6, may cause irreparable damage to the Company, Peoples or their affiliates, the amount of which will be difficult to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, Employee agrees, that, in addition to any other remedy which may be available at law or in equity, the Company, Peoples and each affiliate shall be entitled to specific performance and injunctive relief to prevent any actual, intended or likely breach. The parties acknowledge that the time, scope and other provisions of this Section 6 have been specifically negotiated by sophisticated commercial parties and agree that all such provisions are reasonable for a transaction of the nature provided for in the Merger Agreement and payments to Employee under Section 3 of this Agreement.

2. Company and Peoples acknowledge that a breach of the covenants contained in this Agreement may cause irreparable damage to Employee, the amount of which will be difficult to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, Company and Peoples agree, that, in addition to any other remedy which may be available at law or in equity, Employee shall be entitled to specific performance and injunctive relief to prevent any actual, intended or likely breach. Company and Peoples further agree that, upon a breach of the covenants contained in this Agreement, Employee will not be subject to the provisions of this Section 6, including, but not limited to, the Restricted Period. The parties acknowledge that the time, scope and other provisions of this Agreement have been specifically negotiated by sophisticated commercial parties and agree that all such provisions are reasonable for a transaction of the nature provided for in the Merger Agreement and payments to Employee under Section 3 of this Agreement.
- H. In the event that the agreements in this Section 6 or any other provision contained in this Agreement shall be determined by any court of competent jurisdiction to be unenforceable such agreements or provisions shall be interpreted to extend only over the maximum period of time for which they may be enforceable and/or over the maximum geographical area as to which they may be enforceable and/or to the maximum extent in all other respects as to which they may be enforceable, all as determined by such court in such action so as to be enforceable to the extent consistent with then applicable law.
- I. Nothing in this Section 6 shall prevent Employee from owning not more than five percent (5%) of the outstanding capital stock or other equity interests of (i) any publicly-owned corporation or other entity, including those engaged in the Business or (ii) any non-publicly traded community banks so long as, in each case, Employee is not in control of such corporation or entity, or does not serve as a director, officer, employee, agent or consultant to such corporation or other entity.
7. **DISCLOSURE OF INFORMATION.** Employee shall not, at any time during the term of Employee's employment at the Company, Peoples or at any affiliate or thereafter, disclose to any Person, except as required by law, any non-public information (including, without limitation, non-public information obtained prior to the date hereof) concerning the business, clients or affairs of the Company or Peoples, or any affiliate of the Company or Peoples, for any reason or purpose whatsoever. Employee shall not make any use of any of such non-public information for his own purpose or for the benefit of any Person except the Company and/or Peoples. Upon the termination of Employee's employment at the Company, Employee shall return to the Company all property of the Company or Peoples and any affiliate of the Company or Peoples then in the possession of Employee and all books, records, computer tapes, discs or other electronic media and

all other material containing non-public information concerning the business, clients or affairs of the Company, Peoples or any affiliate of the Company or Peoples. Employee shall not retain copies of any material required to be returned to the Company.

8. **INTELLECTUAL PROPERTY.** Employee shall promptly disclose, grant and assign to the Company for its use and benefit any and all marks, designs, logos, inventions, improvements, business processes, technical information and suggestions relating in any way to the business conducted by the Company or Peoples, or any affiliate of the Company or Peoples, which he may develop or which may be acquired by Employee during the Term of Employee's employment at the Company (whether or not during usual working hours), together with all trademarks, patent applications, letters patent, copyrights and reissues thereof that may at any time be granted for or upon any such mark, design, logo, invention, improvement, process or technical information. In connection therewith:
- A. Employee shall without charge, but at the expense of the Company and/or Peoples, promptly at all times hereafter execute and deliver such applications, assignments, descriptions and other instruments as may be necessary or proper in the opinion of the Company to vest title to any such marks, designs, logos, inventions, improvements, business processes, technical information, trademarks, patent applications, patents, copyrights or reissues thereof in the Company and to enable them to obtain and maintain the entire right and title thereto throughout the world;
 - B. Employee shall render to the Company and/or Peoples at its expense all such assistance as it may require in the prosecution of applications for said trademarks, patents, copyrights or reissues thereof, in the prosecution or defense of interferences which may be declared involving any said trademarks, applications, patents or copyrights and in any litigation in which the Company, Peoples or any of their affiliates may be involved relating to any such trademarks, patents, inventions, improvements, processes or technical information; and
 - C. for the avoidance of doubt, the foregoing provisions shall be deemed to include an assignment of future copyright in accordance with Section 201 of the Copyright Act of 1986 and any amendment or re-enactment thereof relating in any way to the business conducted by the Company or Peoples or any affiliate of the Company or Peoples.
9. **SUCCESSOR BENEFITS.** Subject to and in accordance with the terms of the Merger Agreement, the Company or Peoples, as the case may be, shall:
- A. Assume the Stock Option Plan, as defined in the Merger Agreement, and all of the obligations of Heritage Corporation and Heritage Bank thereunder in accordance with Section 5.22 of said agreement; it is expressly acknowledged by Peoples and the Company that all stock options issued to Employee under such plan shall be fully vested as of the Effective Time, as defined in the Merger Agreement.

- B. Assume the obligation of Heritage Corporation and Heritage Bank to pay the bonus or bonuses that shall be payable to Employee for the period ending December 31, 2004, pursuant to the terms and provisions of Section 2.1 and 2.2 of the Employment Agreement by and among Employee, Heritage Corporation and Heritage Bank, dated January 23, 2003.
10. **HEADINGS.** Section and other headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.
11. **INTEGRATED AGREEMENT.** This Agreement constitutes the entire understanding and agreement among the parties hereto with respect to the subject matter hereof, and there are no other agreements, understandings, restrictions, representations or warranties among the parties other than those set forth herein or provided for herein.
12. **AMENDMENTS.** This Agreement may be amended or modified at any time in any or all respects, but only by an instrument in writing executed by the parties hereto.
13. **CHOICE OF LAW.** The validity of the Agreement, the construction of its terms, and the determination of the rights and duties of the parties hereto shall be governed by and construed in accordance with the internal laws of the State of Alabama excluding conflicts of law principles.
14. **NO STRICT CONSTRUCTION.** The language used in this Agreement shall be deemed to be the language chosen by the parties to express their collective mutual intent, and no rule of strict construction shall be applied against any person. The term “including” as used herein shall be by way of example and shall not be deemed to constitute a limitation of any term or provision contained herein.
15. **ATTORNEY’S FEES AND COSTS.** If an action at law or in equity is necessary to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to reasonable attorney’s fees, court costs and other expenses, in addition to any other relief to which such party may be entitled.
16. **NOTICES.** All notices and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand, (b) sent by facsimile to a facsimile number given below, provided that a copy is sent by a nationally recognized overnight delivery service (receipt requested), or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case as follows:

If to Employee: Larry R. Mathews
 3516 Tangle Creek Circle
 Birmingham, Alabama 35243
 Facsimile No.: (205) 970-6340

If to the Company: Mr. E. Robinson McGraw
President and CEO
The Peoples Holding Company
Post Office Box 709
209 Troy Street (38804)
Tupelo, MS 38802
Facsimile No.: (662) 680-1234

If to Peoples: Mr. E. Robinson McGraw
President and CEO
The Peoples Bank & Trust Company
Post Office Box 709
209 Troy Street (38804)
Tupelo, MS 38802
Facsimile No.: (662) 680-1234

or to such other addresses as a party may designate by notice to the other parties.

17. **ASSIGNMENT.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns, heirs, estate, legatees and legal representatives. The rights and obligations of the Company and/or Peoples under this Agreement may be assigned to or assumed by any other Person. Employees' rights or obligations hereunder may not be assigned to or assumed by any other Person. Any assignment by the Company and/or Peoples shall not affect Employee's duties or responsibilities under this Agreement.
18. **SEVERABILITY.** Each provision of the Agreement is intended to be severable. In the event that any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable, the same shall not affect the validity or enforceability of any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein. Notwithstanding the foregoing, however, no provision shall be severed if it is clearly apparent under the circumstances that the parties would not have entered into the Agreement without such provision.
19. **SURVIVAL.** The provisions of Sections 5 through 19 shall survive the termination of the employment period or termination of this Agreement.
- THIS AGREEMENT** shall be executed in multiple counterparts, each of which shall be deemed an original, as of the day and year first above written.

EMPLOYEE

/s/ Larry R. Mathews

Larry R. Mathews

THE PEOPLES HOLDING COMPANY

By: /s/ E. Robinson McGraw

E. Robinson McGraw, President and
Chief Executive Officer

THE PEOPLES BANK & TRUST COMPANY

By: /s/ E. Robinson McGraw

E. Robinson McGraw, President and
Chief Executive Officer

TERMINATION AND RELEASE AGREEMENT

This Termination Agreement (the "Agreement") is entered into as of the 1st day of January, 2005, by and among Larry R. Mathews ("Employee"), Heritage Financial Holding Corporation, a Delaware corporation ("HFHC"), and Heritage Bank, an Alabama state banking corporation ("Heritage Bank").

WHEREAS, Employee has been employed by HFHC and Heritage Bank pursuant to an Employment Agreement dated January 23, 2003, by and among HFHC, Heritage Bank and Employee (the "Prior Employment Agreement"); and

WHEREAS, pursuant to that certain Agreement and Plan of Merger, dated July 15, 2004, as amended (the "Merger Agreement"), by and among The Peoples Holding Company, a Mississippi corporation ("Peoples"), The Peoples Bank & Trust Company, a Mississippi banking association (the "Company"), HFHC and Heritage Bank, a certain Plan of Merger shall be effectuated with regard to such parties as of the "Effective Time" (as defined in Section 1.2 of the Merger Agreement); and

WHEREAS, Employee has entered into an Employment Agreement among Employee and Peoples and the Company (the "New Employment Agreement") which New Employment Agreement is conditioned upon the consummation of the said Plan of Merger and shall be effective as of the Effective Time; and

WHEREAS, as an inducement to Peoples and the Company to enter into the Merger Agreement and to execute and deliver the New Employment Agreement, and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto wish to settle and release any and all claims any party hereto may have against another party hereto arising from Employee's employment with HFHC and Heritage Bank and the termination of the Prior Employment Agreement, upon the following terms and provisions:

1. Prior Agreements. The parties hereto agree that the Prior Employment Agreement shall be terminated and of no further force and effect as of the Effective Time. This Agreement shall be null and void ab initio and of no further force and effect if the Effective Time does not occur or the Merger Agreement is terminated prior to the Effective Time.

2. No Additional Payment or Benefits. No payments or benefits shall be made by the HFHC or Heritage Bank to Employee, and Employee acknowledges that he has no entitlement to, or any right to make any claims for any additional payments or benefits from HFHC or Heritage Bank of any kind whatsoever.

3. Release and Indemnification by Employee.

A. In consideration of the promises contained herein and in the New Employment Agreement, Employee, on behalf of himself and his heirs, executors,

administrators, successors and assigns, hereby fully and forever discharges and irrevocably releases HFHC and Heritage Bank and all of their directors, officers, employees, shareholders, affiliates, successors and assigns (the "Released Parties") from any and all claims, demands, actions, suits, causes of action and liabilities of whatever kind and nature, whether in law or in equity and whether known or unknown, which he had, now has or hereafter can, shall or may have against HFHC and Heritage Bank, for, upon or by reason of or arising out of Employee's employment with Heritage Bank and the termination of the Prior Employment Agreement, including, but not limited to, claims in equity or law for personal injury, breach of contract, whether express or implied, or oral or written, fraudulent inducement, defamation, mental anguish, intentional infliction of emotional distress, prima facie tort, intentional interference with contractual relations, injury to health and reputation, claims under federal, state or local laws prohibiting discrimination on the account of age, national origin, race, sex, handicap, religion, and similar classifications, claims under the Civil Rights Act of 1866, the Civil Rights Act of 1964, Title VII, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, as amended ("ADEA"), the Employee Retirement Income Security Act of 1974, as amended, the Family and Medical Leave Act of 1993, and the Americans With Disabilities Act. The provisions of any laws providing in substance that releases shall not extend to claims which are unknown or unsuspected at the time to the person executing such waiver or release, are hereby expressly waived; provided, however that this release shall not extend to rights or claims under ADEA that may arise after the date of this Agreement. Employee hereby agrees to forego any right to file any charges or complaint with any governmental agencies for a lawsuit against the Released Parties under any of the laws referenced in this paragraph or with respect to any matters covered by the release in this paragraph to the extent such laws or matters relate to employment under the Prior Employment Agreement.

B. Employee shall indemnify and hold harmless each of the Released Parties from and against all loss, liability, claim, damage or expense (including costs of investigation and defense and reasonable attorneys' fees), arising directly or indirectly from or in connection with the assertion by or on behalf of Employee of any claim or other matter purported to be released pursuant to this Agreement.

C. Employee hereby irrevocably covenants to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced, any proceeding of any kind against any of the Released Parties based upon any matter purported to be released hereby.

4. Release and Indemnification by HFHC and Heritage Bank.

A. In consideration of the promises contained herein, HFHC and Heritage Bank, and their respective successors and assigns, hereby fully and forever discharge and irrevocably release Employee from any and all claims, demands, actions, suits, causes of action and liabilities of whatever kind and nature, whether in law or in equity and whether known or unknown, which either had, now has or hereafter can, shall or may have against Employee, for, upon or by reason of or arising out of Employee's employment with HFHC or Heritage Bank and the termination of the Prior Employment Agreement. The provisions of any laws providing in substance that releases shall not extend to claims which are unknown or unsuspected at the time to the person executing such waiver or release, are hereby expressly waived. HFHC and

Heritage Bank, and their respective successors and assigns, hereby agree to forego any right to file any charges or complaint with any governmental agencies for a lawsuit against the Employee under any of the laws referenced in this paragraph or with respect to any matters covered by the release in this paragraph to the extent such laws or matters relate to employment under the Prior Employment Agreement.

B. HFHC and Heritage Bank, and their respective successors and assigns, shall indemnify and hold harmless Employee from and against all loss, liability, claim, damage or expense (including costs of investigation and defense and reasonable attorneys' fees), arising directly or indirectly from or in connection with the assertion by or on behalf of HFHC or Heritage Bank, or their respective successors and assigns, of any claim or other matter purported to be released pursuant to this Agreement.

C. HFHC and Heritage Bank, and their respective successors and assigns, hereby irrevocably covenant to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced, any proceeding of any kind against Employee based upon any matter purported to be released hereby.

5. Rights Under Agreement and New Employment Agreement. Notwithstanding any provision contained herein to the contrary, the release by Employee in this Agreement shall not limit the right of Employee to seek or enforce the provisions of this Agreement or the New Employment Agreement.

6. Governing Law. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Alabama without regard to principles of conflict of laws.

7. Entire Agreement. Each party hereto acknowledges that such party is entering into this Agreement voluntarily and that such party fully understands all of its provisions. This Agreement constitutes the entire understanding of the parties and supersedes all prior oral and written agreements. This Agreement cannot be modified except by a writing signed by all parties hereto.

8. Amendment. No provisions of this Agreement may be amended, modified, waived or discharged except by a written document signed by all the parties hereto.

9. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect to the fullest extent permitted by law.

10. Survival of Rights and Obligations. The rights and obligations of the parties under the provisions of this Agreement shall survive, and remain binding and enforceable, notwithstanding the termination of the Employee's employment with HFHC or Heritage Bank or any settlement of the financial rights and obligations arising from the Employee's employment with HFHC or Heritage Bank, to the extent necessary to preserve the intended benefits of such provision.

11. Counterparts. This Agreement may be executed (including via facsimile) in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and same instrument, and, subject to the further terms of this Agreement, shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

12. Headings. The headings and title of this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date first above written.

EMPLOYEE

/s/ Larry R. Mathews

Larry R. Mathews

HERITAGE FINANCIAL HOLDING
COMPANY

By: /s/ Larry R. Mathews

Name: Larry R. Mathews

Title: President

HERITAGE BANK

By: /s/ Larry R. Mathews

Name: Larry R. Mathews

Title: President

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Current Report on Form 8-K of The Peoples Holding Company of our report, dated February 6, 2004, except for note 12 as to which the date is March 9, 2004, appearing in the Annual Report on Form 10-K of Heritage Financial Holding Corporation for the year ended December 31, 2003.

/s/ PORTER KEADLE MOORE, LLP

Atlanta, Georgia
January 5, 2005