

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

FIRST BANCSHARES INC /MO/
Form 10QSB
November 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 0-22842

FIRST BANCSHARES, INC.
(Exact name of small business issuer as specified in its charter)

Missouri 43-1654695

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

142 East First Street, Mountain Grove, Missouri 65711

(Address of principal executive offices)

(417) 926-5151

(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for
such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
-- --

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

-- --

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date.

Class: Outstanding at November 13, 2007:
Common Stock, \$.01 par value 1,550,815 Common Shares

Transitional Small Business Disclosure Format Yes No X
-- ---

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

FIRST BANCSHARES, INC.
AND SUBSIDIARIES
FORM 10-QSB

INDEX

	Page No.

Part I. Financial Information	

Item 1. Financial Statements:	
Consolidated Statements of Financial Condition at September 30, 2007 and June 30, 2007 (Unaudited)	3
Consolidated Statements of Income for the Three Months Ended September 30, 2007 and 2006 (Unaudited)	4
Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2007 and 2006 (Unaudited)	5
Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2007 and 2006 (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis or Plan of Operation	10
Item 3. Controls and Procedures	16
Part II. Other Information	

Item 1. Legal Proceedings	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	17
Item 3. Defaults Upon Senior Securities	17
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 5. Other Information	17
Item 6. Exhibits	17
Signatures	18
Exhibit Index	19
Certifications	20

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

	September 30, 2007 -----	June 30, 2007 -----
ASSETS		

Cash and cash equivalents	\$ 19,187,490	\$ 21,030,321
Certificates of deposit	651,532	746,632
Securities available-for-sale	37,207,433	31,321,225
Securities held-to-maturity	10,676,496	10,786,182
Federal Home Loan Bank stock, at cost	1,613,200	1,613,800
Loans receivable, net	157,272,239	158,992,921
Accrued interest receivable	1,340,220	1,259,460
Prepaid expenses	503,579	360,375
Property and equipment	7,124,176	7,506,862
Real estate owned	831,563	293,337
Intangible assets	273,056	285,584
Deferred tax asset, net	775,818	707,066
Income taxes recoverable	49,480	196,687
Bank-owned life insurance	5,972,934	5,919,973
Other assets	1,617,273	310,334
	-----	-----
Total assets	\$ 245,096,489	\$ 241,330,759
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

Deposits	\$ 193,729,044	\$ 190,090,359
Retail repurchase agreements	1,683,865	2,103,105
Advances from Federal Home Loan Bank	22,000,000	22,000,000
Accrued expenses and accounts payable	792,170	669,202
	-----	-----
Total liabilities	218,205,079	214,862,666
	-----	-----
Preferred stock, \$.01 par value; 2,000,000 shares authorized, none issued	-	-
Common stock, \$.01 par value; 8,000,000 shares authorized, 2,895,036 issued at September 30, 2007 and June 30, 2007, 1,550,815 shares outstanding at September 30, 2007 and June 30, 2007	28,950	28,950
Paid-in capital	17,960,819	17,936,224
Retained earnings - substantially restricted	28,076,935	27,850,962
Treasury stock - at cost; 1,344,221 shares at September 30, 2007 and June 30, 2007	(19,112,627)	(19,112,627)
Accumulated other comprehensive loss	(62,667)	(235,416)
	-----	-----
Total stockholders' equity	26,891,410	26,468,093
	-----	-----
Total liabilities and stockholders' equity	\$ 245,096,489	\$ 241,330,759
	=====	=====

See notes to consolidated financial statements.

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended	
	September 30,	
	2007	2006
	-----	-----
Interest Income:		
Loans receivable	\$ 2,954,211	\$ 2,568,174
Securities	585,073	454,077
Other interest-earning assets	205,536	204,088
	-----	-----
Total interest income	3,744,820	3,226,339
Interest Expense:		
Deposits	1,732,306	1,302,590
Retail repurchase agreements	16,780	-
Borrowed funds	323,257	323,526
	-----	-----
Total interest expense	2,072,343	1,626,116
	-----	-----
Net interest income	1,672,477	1,600,223
Provision for loan losses	7,500	110,000
Net interest income after provision for loan losses	-----	-----
	1,664,977	1,490,223
Non-interest Income:		
Service charges and other fee income	500,949	444,818
Gain on sale of loans	152,929	-
Gain (loss) on sale of property and equipment and real estate owned	36,793	47,086
Income from bank-owned life insurance	52,961	54,278
Other	41,080	45,258
	-----	-----
Total non-interest income	784,712	591,440
Non-interest Expense:		
Compensation and employee benefits	1,136,681	1,165,670
Occupancy and equipment	393,587	329,567
Professional fees	146,948	58,865
Deposit insurance premiums	27,063	5,909
Other	427,601	418,667
	-----	-----
Total non-interest expense	2,131,880	1,978,678
	-----	-----
Income before taxes	317,809	102,985
Income taxes	92,437	31,273
	-----	-----
Net income	\$ 225,372	\$ 71,712
	=====	=====
Earnings per share basic	\$ 0.15	\$ 0.04
	=====	=====
Earnings per share diluted	0.15	0.04
	=====	=====
Dividends per share	0.00	0.04
	=====	=====

See notes to consolidated financial statements

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,	
	2007	2006
	-----	-----
Net Income	\$ 225,372	\$ 71,712
Other comprehensive income, net of tax:		
Change in unrealized gain on securities available-for-sale, net of deferred income taxes	172,749	151,082
	-----	-----
Comprehensive income	\$ 398,121	\$ 222,794
	=====	=====

See notes to consolidated financial statements

5

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended September 30,	
	2007	2006
	-----	-----
Cash flows from operating activities:		
Net income	\$ 225,372	\$ 71,712
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	211,283	161,951
Amortization	12,528	12,529
Premiums and discounts on securities	(43,078)	1,674
Stock based compensation	24,595	13,125
Provision for loan losses	7,500	110,000
Proceeds from sales of loans originated for sale	6,029,047	-
Loans originated for sale	(5,876,118)	-
Deferred income taxes	(47,452)	(92,420)
(Gain) loss on sale of property and equipment and real estate owned	(36,793)	(47,086)
Loss on the sale of other repossessed assets	1,237	-
Income from bank-owned life insurance	(52,961)	(54,278)
Net change in operating accounts:		

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

Accrued interest receivable and other assets	(1,675,942)	(194,083)
Deferred loan costs	(6,977)	-
Income taxes recoverable	36,900	122,455
Accrued expenses and accounts payable	122,968	(38,626)
Net cash provided by(used in) operating activities	(1,067,891)	66,953
Cash flows from investing activities:		
Purchase of securities available-for-sale	(8,569,757)	-
Purchase of securities held to maturity	-	(345,335)
Proceeds from maturities of securities available-for-sale	2,988,893	272,411
Proceeds from sales of securities available-for-sale	-	1,305,618
Proceeds from maturities of securities held to maturity	109,160	-
Purchase of Federal Home Loan Bank stock	-	(83,400)
Proceeds from redemption of Federal Home Loan Bank stock	600	-
Net change in certificates of deposit purchased	95,100	(38,773)
Net change in loans receivable	1,147,969	(5,809,118)
Purchases of property and equipment	(71,323)	(197,027)
Net proceeds from the sale of property and equipment	276,293	-
Net proceeds from sale of real estate owned	28,680	197,036
Net cash provided by (used in) investing activities	(3,994,385)	(4,698,588)
Cash flows from financing activities:		
Net change in deposits	3,638,685	(4,436,907)
Net change in retail repurchase agreements	(419,240)	-
Proceeds from borrowed funds	-	3,000,000
Cash dividends paid	-	(62,095)
Purchase of treasury stock	-	(12,764)
Net cash provided by (used in) financing activities	3,219,445	(1,511,766)
Net increase (decrease) in cash and cash equivalents	(1,842,831)	(6,143,401)
Cash and cash equivalents - beginning of period	21,030,321	23,473,645
Cash and cash equivalents - end of period	\$19,187,490	\$17,330,244
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowed funds	\$ 2,025,801	\$ 1,540,518
Income taxes	-	-
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to real estate acquired in settlement of loans	\$ 565,213	\$ 227,500

See notes to consolidated financial statements

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

FIRST BANCSHARES, INC. AND SUBSIDIARIES Notes to Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed for interim reporting by First Bancshares, Inc. (the "Company") and its consolidated subsidiaries, First Home Savings Bank (the "Bank") and SCMG, Inc. are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying consolidated statement of financial condition as of June 30, 2007, which has been derived from audited financial statements, and the unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest shareholders' Annual Report on Form 10-KSB for the year ended June 30, 2007 (Form 10-KSB). The results for these interim periods may not be indicative of results for the entire year or for any other period.

2. ACCOUNTING DEVELOPMENTS

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. Management has implemented FIN 48 effective as of July 1, 2007, and knows of no uncertain tax position that would require additional tax accruals for tax liabilities.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation or cash flows.

In February 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115, which provides all entities, including not-for-profit organizations, with an option to report

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

selected financial assets and liabilities at fair value. The objective of the Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of

7

hedge accounting. Certain specified items are eligible for the irrevocable fair value measurement option as established by Statement No. 159. Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of Statement No. 157, Fair Value Measurements. The Company is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operation or cash flows.

3. EARNINGS PER SHARE

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the effect of the issuance of shares eligible to be issued pursuant to stock option agreements.

The table below presents the numerators and denominators used in the basic earnings per common share computations for the three months ended September 30, 2007 and 2006. For both periods presented, no dilutive effect would result from the issuance of shares eligible to be issued pursuant to stock option agreements due to the fact that the exercise prices, for all options that could be exercised, exceeded the average market price during the period.

	Three Months Ended September 30,	
	2007	2006
Basic earnings per common share:	-----	-----
Numerator:		
Net income	\$ 225,372	\$ 71,712
Denominator:	=====	=====
Weighted average common shares outstanding	1,550,815	1,552,373
	=====	=====
Basic earnings per common share	\$ 0.15	\$ 0.04
	=====	=====

4. COMMITMENTS

At September 30, 2007 and June 30, 2007, the Company had outstanding commitments to originate loans and fund unused lines of credit totaling \$2.9 million and \$5.1 million, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets.

5. STOCK OPTION PLAN

Effective July 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method,

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

compensation cost recognized in the three-month periods ended September 30, 2007 and 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of July 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to July 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R).

The Company uses historical data to estimate the expected term of the options granted, volatilities, and other factors. Expected volatilities are based on the historical volatility of the Company's common stock

8

over a period of time. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend rate is equal to the dividend rate in effect on the date of grant. The Company used the following assumptions for grants in fiscal 2007, respectively: dividend rates of .00% to .99%, price volatility of 18.36% to 20.29%, risk-free interest rates of 4.58% to 5.02%, and an expected life of 7.5 to 10 years. There were no grants made during the first quarter ended September 30, 2007.

A summary of option activity under the Plan as of September 30, 2007, and changes during the three months ended September 30, 2007, is presented below:

Options -----	Shares -----	Weighted- Average Exercise Price -----	Weighted- Average Remaining Contractual Term ----- (in months)
Outstanding at beginning of period	64,500	\$ 16.76	113
Granted	-	-	
Exercised	-	-	
Forfeited or expired	-	-	
	-----	-----	
Outstanding at end of period	64,500	\$ 16.76	110

A summary of the Company's non-vested shares as of September 30, 2007, and changes during the three months ended September 30, 2007, is presented below:

Non-vested Options -----	Options -----	Weighted- Average Grant Date Fair Value -----
Outstanding at beginning of period	61,100	\$ 6.02
Granted	-	-
Exercised	-	-
Forfeited or expired	-	-
	-----	-----
Outstanding at end of period	61,100	\$ 6.02
	=====	=====

As of September 30, 2007, there was \$158,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

of approximately 17 months.

6. RECLASSIFICATIONS

Certain amounts in the prior period financial statements have been reclassified, with no effect on net income or stockholders' equity, to be consistent with the current period classification.

9

Item 2. Management's Discussion and Analysis or Plan of Operation

General

First Bancshares, Inc. (the "Company") is a unitary savings and loan holding company whose primary assets are First Home Savings Bank and SCMG, Inc. The Company was incorporated on September 30, 1993, for the purpose of acquiring all of the capital stock of First Home Savings Bank in connection with Bank's conversion from a state-chartered mutual to a state-chartered stock form of ownership. The transaction was completed on December 22, 1993.

On September 30, 2007, the Company had total assets of \$245.1 million, loans receivable, net of \$157.3 million, total deposits of \$193.7 million and stockholders' equity of \$26.9 million. The Company's common shares trade on The Nasdaq Global Market of The NASDAQ Stock Market LLC under the symbol "FBSI."

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at September 30, 2007, compared to June 30, 2007, and the consolidated results of operations for the three months ended September 30, 2007, compared to the three months ended September 30, 2006. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended June 30, 2007.

Corporate Developments and Overview

During the quarter ended September 30, 2007, the Company entered into a lease agreement for approximately 5,100 square feet of office space in Springfield, Missouri. The new space will house the Bank's Loan Production Office, which has been operating out of a much smaller location since it was approved by the State of Missouri during the third quarter of fiscal 2007. In addition to the Loan Production Office, there will be offices for senior officers of the Company and the Bank, who spend time in Springfield, as well as, the Company home office in Mountain Grove, Missouri.

During the quarter ended September 30, 2007, the operations of the in-house brokerage service, which was based in Mountain Grove, Missouri, were discontinued due to staffing difficulties. This brokerage service operated under a Bank subsidiary, First Home Investments. The Company entered into an agreement with an outside company based in Springfield, Missouri to provide brokerage services to the Bank's customers.

The Bank continues to operate under a Memorandum of Understanding (the "MOU") with the Office of Thrift Supervision (the "OTS"). The MOU was entered into during the December 31, 2006 quarter. The MOU dealt with various issues affecting the operations of the Bank. While the Bank has sought to resolve all the issues raised in the MOU, at September 30, 2007, there was one item of the MOU outstanding, namely the completion and filing with the OTS of a three-year business plan for the Bank. The business plan was due by October 31, 2007. The three year business plan was approved by the Bank's board of directors at its

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

meeting on October 26, 2007, and was submitted to the OTS on October 29, 2007.

For more information concerning the MOU or the activities of and developments about the Company during the fiscal year ended June 30, 2007, please refer to the sections titled "Corporate Developments and Overview" and "Risk Factors" on pages one through three of the Company's Form 10-KSB, which was filed with the Securities and Exchange Commission on September 28, 2007.

Financial Condition

As of September 30, 2007, First Bancshares, Inc. had assets of \$245.1 million, compared to \$241.3 million at June 30, 2007. The increase in total assets of \$3.8 million, or 1.6%, was primarily the result of an increase in securities as a result of the deposit growth during the quarter as well as an increase in Other Assets, which was the result of an

10

increase in loans originated for sale which were not yet funded by the purchasers. These increase were partially offset by a decrease in loans receivable, net of \$1.7 million during the three-month period ended September 30, 2007. Total investments increased \$5.7 million, during this period. Deposits increased by \$3.6 million and were partially offset by a decrease in retail repurchase agreements which decreased by \$419,000. Advances from the Federal Home Loan Bank of Des Moines remained constant during the quarter.

Loans receivable, net totaled \$157.3 million at September 30, 2007, a decrease of \$1.7 million from \$159.0 million at June 30, 2007. The decrease in loans is, in part, the result of decreased originations because of the current uncertainty in the economy, both local and national, brought about by problems in the sub-prime mortgage market. These problems have affected many sectors of the economy and created concerns for individuals and businesses. Housing sales, both new and existing, consumer confidence and other indicators of economic health in our market area have decreased over the last few months.

The Company's deposits grew \$3.6 million from \$190.1 million as of June 30, 2007 to \$193.7 million as of September 30, 2007. The growth is the result of efforts made by the Company to attract core deposits through new products introduced during fiscal 2007 and internal emphasis on business development. The Company's retail repurchase agreements, introduced during fiscal 2007, decreased by \$419,000 from \$2.1 million at June 30, 2007 to \$1.7 million at September 30, 2007.

Advances from the Federal Home Loan Bank of Des Moines remained constant at \$22.0 million during the quarter ended September 30, 2007

As of September 30, 2007 the Company's stockholders' equity totaled \$26.9 million, compared to \$26.5 million as of June 30, 2007. The increase of \$423,000 was due to net income of \$225,000 during the first quarter of the fiscal year and a positive change in the mark-to-market adjustment, net of taxes, of \$173,000 on the Company's available for sale securities portfolio. In addition, there was a \$25,000 increase resulting from the accounting treatment of stock based compensation. There were no dividends paid during the period and the Company does not currently have a stock buyback program in place.

Non-performing Assets and Allowance for Loan Losses

Generally, when a loan becomes delinquent 90 days or more, or when the collection of principal or interest becomes doubtful, the Company will place the loan on non-accrual status and, as a result of this action, previously accrued

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

interest income on the loan is reversed against current income. The loan will remain on non-accrual status until the loan has been brought current or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

Non-performing assets increased from \$3.3 million, or 1.4% of total assets at June 30, 2007 to \$4.1 million, or 1.7% of total assets at September 30, 2007. The Bank's non-performing assets consist of non-accrual loans, past due loans over 90 days, impaired loans not past due or past due less than 60 days, real estate owned and other repossessed assets. The increase in non-performing assets was the result of four loans, totaling \$866,000, to four separate borrowers being placed on non-performing status during the quarter ended September 30, 2007, at which time they were placed on non-accrual status. All four of these loans were considered loans of concern at June 30, 2007 and were included in the analysis of loss reserves at that time. One is collateralized by a small resort property. One is a floor plan on used vehicles. One is collateralized by equipment related to recycling. One is a large home equity line of credit.

Classified assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but

11

which, unlike specific allowances, have not been allocated to particular problem loans. When assets are classified as loss, the Company is required either to establish a specific allowance for loan losses equal to 100% of that portion of the loan so classified, or to charge-off such amount. The Company's determination as to the classification of its loans and the amount of its allowances for loan losses are subject to review by its regulatory authorities, which may require the establishment of additional general or specific allowances for loan losses.

On the basis of management's review of its loans and other assets, at September 30, 2007, the Company had classified a total of \$3.0 million of its assets as substandard, \$547,000 as doubtful and none as loss. This compares to classifications at June 30, 2007 of \$4.2 million substandard, \$101,000 doubtful and none as loss. This reduction is primarily due to the transfer of two of the loans discussed earlier, which totaled \$440,000, moving from substandard to doubtful, and to the transfer to real estate owned of one loan totaling \$412,000.

In addition to the classified loans, the Bank has identified an additional \$2.0 million of credits at September 30, 2007 on its internal watch list compared to \$4.8 million at June 30, 2007 and \$5.3 million at September 30, 2006. Management has identified these loans as high risk credits and any deterioration in their financial condition could increase the classified loan totals. The decrease in the internal watch list is the result of the stricter internal policies relating to the identification and monitoring of problem loans. During the quarter ended September 30, 2007, six loans totaling \$2.7 million were removed from the watch list due to the resolution of the reasons they were on the watch list.

Allowance for loan losses. The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets and

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

non-performing loans, the composition of its loan portfolio and the general economic environment within which the Bank and its borrowers operate.

At September 30, 2007, the Company has established an allowance for loan losses totaling \$2.5 million compared to \$2.6 million at June 30, 2007. The allowance represents approximately 76.4% and 82.4% of the total non-performing loans at September 30, 2007 and June 30, 2007, respectively.

The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. Future additions to the allowance for loan losses may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio.

Critical Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be the policy related to the allowance for loan losses.

The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth

12

are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio it will enhance its methodology accordingly. Management may have reported a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Non-performing Assets and Allowance for Loan Losses." Although management believes the levels of the allowance as of both September 30, 2007 and June 30, 2007 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses.

Results of Operations for the Three Months Ended September 30, 2007 Compared to the Three Months Ended September 30, 2006

General. For the three months ended September 30, 2007, the Company reported net income of \$225,000, or \$0.15 diluted share, compared to net income of \$72,000, or \$0.04 per diluted share, for the same period in 2006. The increase

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

in net income for the 2007 period included increases in net interest income and non-interest income, and a decrease in the provision for loan losses, which were partially offset by increases in non-interest expense and income taxes.

Net interest income. The Company's net interest income for the three months ended September 30, 2007 was \$1.7 million, compared to \$1.6 million for the same period in 2006. The increase reflects a \$519,000 increase in interest income partially offset by a \$464,000 increase in interest expense.

Interest income. Interest income for the three months ended September 30, 2007 increased \$519,000, or 16.7%, to \$3.7 million compared to \$3.2 million for the same period in 2006. Interest income from loans increased \$386,000 to \$3.0 million from \$2.6 million in 2006. This was attributable to an increase in average loans to \$157.4 million during the 2007 period from \$144.3 million during the comparable 2006 period, and to an increase in the yield on loans to 7.44% during the three months ended September 30, 2007 from 7.06% during the comparable period in 2006. The increase in average loans was the result of an increase in lending volume during the last six months of fiscal 2007, and the increase in yield was the result of an upward trend in interest rates between periods.

Interest income from investment securities and other interest-earning assets for the three months ended September 30, 2007 increased \$133,000 to \$791,000 from \$658,000 for the same period in 2006. The increase was the result of an increase in the average balance of these assets of \$6.3 million to \$64.6 million for the quarter ended September 30, 2007 from \$58.3 million for the same period in 2006, and to an increase in the yield on these assets to 4.85% for the 2007 period from 4.48% for the 2006 period.

Interest expense. Interest expense for the three months ended September 30, 2007 increased \$446,000 or 27.4%, to \$2.1 million from \$1.6 million for the same period in 2006. Interest expense on deposits increased \$430,000 to \$1.7 million in the three months ended September 30, 2007 from \$1.3 million in the same period in 2006. The increase resulted from an increase in average interest-bearing deposit balances of \$15.8 million to \$179.6 million in the 2007 period from \$163.8 million in the 2006 period. The increase was also attributable to an increase in the average cost of deposits to 3.83% in the 2007 period from 3.16% in the 2006 period. Interest expense on other interest-bearing liabilities increased \$17,000 to \$340,000 in the three months ended September 30, 2007 from \$324,000 in the comparable period in 2006. Virtually all of the increase in interest expense on other interest-bearing liabilities was due to retail repurchase agreements which the Company did not offer during the 2006 period.

Net interest margin. Net interest margin decreased to 2.99% for the three months ended September 30, 2007 from 3.13% for the three months ended September 30, 2006.

13

Provision for loan loss. During the quarter ended September 30, 2007, the provision for loan losses was \$7,500, compared to \$110,000 for the quarter ended September 30, 2006. For a discussion of this change, see "Non-performing Assets and Allowance for Loan Losses" herein.

Non-interest income. For the three months ended September 30, 2007, non-interest income totaled \$785,000, compared to \$591,000 for the three months ended September 30, 2006. The \$193,000 increase between the two periods resulted primarily from profit of \$153,000 on the sale of loans, and to an increase in service charges and fee income of \$56,000. There was no profit on the sale of loans during the 2006 period. It is expected that we will continue to generate profit on the sale of loans, but in light of the current real estate

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

climate it is likely that the amount of profit will be less than anticipated over the balance of the fiscal year. These increases were partially offset by decreases of \$10,000, \$1,000 and \$4,000 in gain on the sale of property and equipment and real estate owned, income from bank owned life insurance and other non-interest income, respectively.

Non-interest expense. Non-interest expense for the three months ended September 30, 2007 totaled \$2.1 million, compared to \$2.0 million for the same quarter in fiscal year 2006. This increase of \$153,000 was the result of increases of \$64,000, \$88,000, \$21,000 and \$9,000 in occupancy and equipment expense, professional fees, deposit insurance premiums and other non-interest expense, respectively. These increases were partially offset by a decrease of \$29,000 in compensation expense. The increase in occupancy and equipment expense was the result of the operations of the loan production office and additional costs related to information technology upgrades. The increase in professional fees was due to additional internal audit work performed during the period, compared to the prior year and other accounting and legal issues. The increase in deposit insurance premiums was the result of an increase in the assessment rates by the Federal Deposit Insurance Corporation.

Income tax expense. State income tax expense and income tax benefits are recorded based on the taxable income or loss of each of the companies. Federal income taxes are calculated based on the combined income of the consolidated group. Pre-tax net income is reduced by non-taxable income items and increased by non-deductible expense items. The increase in income taxes is primarily the result of the increase in pre-tax income.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans, investments, and mortgage-backed securities, and funds provided by other operating activities. While scheduled payments on loans, mortgage-backed securities, and short-term investments are relatively predictable sources of funds, deposit flows and early loan repayments are greatly influenced by general interest rates, economic conditions, and competition.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At September 30, 2007, the Company had commitments to originate loans and fund unused lines of credit totaling \$2.9 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require First Home Savings Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth First Home Savings Bank's actual capital and required capital amounts and ratios at September 30, 2007 which, at that date, exceeded the minimum capital adequacy requirements.

14

Actual	Minimum Requirement For Capital Adequacy Purposes	Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions
--------	---	--

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

At September 30, 2007	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Tangible Capital (to adjusted total assets)	\$24,548	10.11%	\$ 3,642	1.50%	-	-
Tier 1 (Core) Capital (to adjusted total assets)	24,548	10.11	9,713	4.00	\$12,141	5.00%
Total Risk Based Capital (to risk weighted assets)	26,447	15.97	12,299	8.00	15,373	10.00

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At September 30, 2007, First Home Savings Bank exceeded minimum requirements for the well-capitalized category.

Forward Looking Statements

The Company, and its wholly-owned subsidiaries, First Home Saving Bank and SCMG, Inc., may from time to time make written or oral "forward-looking statements," including statements contained in its filings with the Securities and Exchange Commission, in its reports to shareholders, and in other communications by the Company, which are made in good faith by the Company pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements may address: future operating results; customer growth and retention; loan and other product demand; earnings growth and expectations; new products and services; credit quality and adequacy of reserves; technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing its "litigation", improving its loan underwriting and related lending policies and procedures, collecting assets of borrowers in default, successfully resolving the MOU and managing the risks involved in the foregoing.

The foregoing list of factors is not exclusive. Additional discussions of factors affecting the Company's business and prospects are contained in the Company's periodic filings with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

Any control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that its objectives will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a - 15(e) and 15d - 15(e) of the Securities Exchange Act of 1934 (Exchange Act) as of the end of the period covered by the report.

Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2007 the Company's disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by the Company in this Report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by the Company in the reports that its files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

During the quarter ended September 30, 2007, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

Item 3A(T). Controls and Procedures

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

Not applicable.

16

FIRST BANCSHARES, INC.
AND SUBSIDIARIES
PART II - OTHER INFORMATION

FORM 10-QSB

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

(a) Recent sales of unregistered securities - None.

(b) Use of proceeds - None.

(c) Stock repurchases - None

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

17

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST BANCSHARES, INC.

Date: November 13, 2007

By: /s/ Daniel P. Katzfey

Daniel P. Katzfey, President,
and Chief Executive Officer

Date: November 13, 2007

By: /s/ Ronald J. Walters

Ronald J. Walters, Senior Vice President,
Treasurer and Chief Financial Officer

18

EXHIBIT INDEX

Exhibit No. -----	Description of Exhibit -----
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

19

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel P. Katzfey, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of First Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter ended (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2007

/s/ Daniel P. Katzfey

Chief Executive Officer

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald J. Walters, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of First Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter ended (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

Date: November 13, 2007

/s/ Ronald J. Walters

Chief Financial Officer

21

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18USC SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-QSB of First Bancshares, Inc. (the "Company") for the quarterly period ended September 30, 2007 (the "Report"), I, Daniel P. Katzfey, Chief Executive Officer of the Company, hereby certify, pursuant to 18 USC Section 1350, as adopted, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 13, 2007

By: /s/ Daniel P. Katzfey

Name: Daniel P. Katzfey
Chief Executive Officer

22

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18USC SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-QSB of First

Edgar Filing: FIRST BANCSHARES INC /MO/ - Form 10QSB

Bancshares, Inc. (the "Company") for the quarterly period ended September 30, 2007 (the "Report"), I, Ronald J. Walters, Chief Financial Officer of the Company, hereby certify, pursuant to 18 USC Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 13, 2007

By: /s/ Ronald J. Walters

Name: Ronald J. Walters
Chief Financial Officer