FIRST BANCSHARES INC /MO/
Form 10-Q
February 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2009

[ ] 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 incorporation or organization) | (IRS Employer Identification No.) |

142 East First Street, Mountain Grove, Missouri 65711
(Address of principal executive offices)

(417) 926-5151
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Indicate by check mark whether registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes___ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Check one:

| | |
|---|---|
| Large accelerated filer ( ) | Accelerated filer ( ) |
| Non-accelerated filer ( ) | Smaller reporting company (X) |

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

1

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 1,550,815 shares outstanding at February 12, 2010.

FIRST BANCSHARES, INC.
AND SUBSIDIARIES
FORM 10-Q

INDEX

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

| | | December 31, 2009 | | June 30, 2009 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | $ | 18,855,827 | $ | 26,217,607 |
| Certificates of deposit purchased | | 8,391,047 | | 5,628,062 |
| Securities available-for-sale | | 45,552,938 | | 45,316,804 |
| Securities held to maturity | | 2,206,459 | | 2,591,510 |
| Federal Home Loan Bank stock, at cost | | 473,800 | | 1,580,800 |
| Loans receivable, net | | 119,498,229 | | 133,162,106 |
| Loans held for sale | | - | | 820,270 |
| Accrued interest receivable | | 852,807 | | 955,037 |
| Prepaid expenses | | 1,766,842 | | 399,753 |
| Property and equipment, net | | 6,186,976 | | 6,669,373 |
| Real estate owned and other repossessed assets | | 3,956,783 | | 1,706,615 |
| Intangible assets, net | | 160,298 | | 185,355 |
| Deferred tax asset, net | | 966,692 | | 1,838,785 |
| Income taxes recoverable | | 894,248 | | 274,583 |
| Bank-owned life insurance | | - | | 2,154,025 |
| Other assets | | 378,680 | | 414,608 |
| Total assets | $ | 210,141,626 | $ | 229,915,293 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Deposits | $ | 179,050,590 | $ | 189,217,878 |
| Retail repurchase agreements | | 3,549,524 | | 5,713,382 |
| Advances from Federal Home Loan Bank | | 3,000,000 | | 10,000,000 |
| Accrued expenses | | 519,739 | | 1,220,142 |
| Total liabilities | | 186,119,853 | | 206,151,402 |
| 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 December 31, 2009 and June 30, 2009, 1,550,815 shares outstanding at December 31, 2009 and June 30, 2009 | | 28,950 | | 28,950 |
| Paid-in capital | | 18,052,364 | | 18,047,257 |
| Retained earnings - substantially restricted | | 24,268,532 | | 24,022,637 |
| Treasury stock - at cost; 1,344,221 shares | | (19,112,627 ) | | (19,112,627 ) |
| Accumulated other comprehensive income | | 784,554 | | 777,674 |
| Total stockholders' equity | | 24,021,773 | | 23,763,891 |
| Total liabilities and stockholders' equity | $ | 210,141,626 | $ | 229,915,293 |

See notes to consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended December 31, 2009 | Three Months Ended December 31, 2008 | Six Months Ended December 31, 2009 | Six Months Ended December 31, 2008 |
|---|---|---|---|---|
| Interest Income: | | | | |
| Loans receivable | $ 1,933,255 | $ 2,510,358 | $ 4,048,313 | $ 5,241,433 |
| Securities | 494,105 | 686,231 | 994,723 | 1,303,631 |
| Other interest-earning assets | 66,620 | 18,349 | 114,816 | 86,994 |
| Total interest income | 2,493,980 | 3,214,938 | 5,157,852 | 6,632,058 |
| Interest Expense: | | | | |
| Deposits | 788,390 | 1,054,923 | 1,652,598 | 2,212,515 |
| Retail repurchase agreements | 14,385 | 18,668 | 31,888 | 45,149 |
| Borrowed funds | 48,762 | 323,240 | 106,671 | 646,479 |
| Total interest expense | 851,537 | 1,396,831 | 1,791,157 | 2,904,143 |
| Net interest income | 1,642,443 | 1,818,107 | 3,366,695 | 3,727,915 |
| Provision for loan losses | (51,324) | 4,230,100 | - | 4,379,297 |
| Net interest income (loss) after Provision for loan losses | 1,693,767 | (2,411,993) | 3,366,695 | (651,382) |
| Non-interest Income: | | | | |
| Service charges and other fee income | 398,197 | 498,623 | 842,592 | 1,053,397 |
| Gain on sale of loans | 2,689 | 84,937 | 32,404 | 190,278 |
| Gain (loss) on sale of property and equipment and real estate owned | (5,365) | (13,814) | 42,482 | (7,334) |
| Provision for loss on real estate owned | (93,000) | - | (128,000) | (8,000) |
| Income from bank-owned life insurance | - | 58,328 | 15,064 | 111,694 |
| Other | 33,200 | 45,555 | 61,241 | 90,950 |
| Total non-interest income | 335,721 | 673,629 | 865,783 | 1,430,985 |
| Non-interest Expense: | | | | |
| Compensation and employee benefits | 912,342 | 1,107,486 | 1,846,317 | 2,236,114 |
| Occupancy and equipment | 316,442 | 397,253 | 699,701 | 877,060 |
| Professional fees | 140,455 | 146,586 | 263,617 | 260,836 |
| Deposit insurance premiums | 177,876 | 27,599 | 264,526 | 54,319 |
| Other | 327,357 | 549,602 | 662,190 | 957,394 |
| Total non-interest expense | 1,874,472 | 2,228,526 | 3,736,351 | 4,385,723 |
| Income (loss) before taxes | 155,016 | (3,966,890) | 496,127 | (3,606,120) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income taxes (benefit) | | 108,475 | | (962,026) | | 250,233 | | (845,995) |
| Net income (loss) | $ | 46,541 | $ | (3,004,864) | $ | 245,894 | $ | (2,760,125) |
| Earnings (loss) per share – basic | $ | 0.03 | $ | (1.94) | $ | 0.16 | $ | (1.78) |
| Earnings (loss) per share – diluted | | 0.03 | | (1.94) | | 0.16 | | (1.78) |
| Dividends per share | | 0.00 | | 0.00 | | 0.00 | | 0.10 |

See notes to consolidated financial statements

5

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

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net Income (loss) | $ 46,541 | $ (3,004,864) | $ 245,894 | $ (2,760,125) |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in unrealized gain on securities available-for-sale, net of deferred income taxes and reclassification adjustment for gains realized in income | (201,000) | 776,604 | 6,880 | 877,657 |
| Comprehensive income (loss) | $ (154,459) | $ (2,228,260) | $ 252,774 | $ (1,882,468) |

See notes to consolidated financial statements

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

| | Six Months Ended December 31, 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 245,894 | $ (2,760,126) |
| Adjustments to reconcile net income to net Cash provided by operating activities: | | |
| Depreciation | 278,480 | 330,844 |
| Amortization | 25,057 | 25,058 |
| Premiums and discounts on securities | (54,501) | (67,240) |
| Stock based compensation | 5,108 | 19,930 |
| Provision for loan losses | - | 4,379,297 |
| Provision for losses on real estate owned | 128,000 | 8,000 |
| Gain on the sale of loans | (32,404) | (190,278) |
| Proceeds from sales of loans originated for sale | 955,960 | 7,589,369 |
| Loans originated for sale | (83,380) | (7,263,752) |
| Change in deferred income taxes | 868,548 | (1,375,018) |
| (Gain) loss on sale of property and equipment And real estate owned | (42,063) | 7,970 |
| Income from bank-owned life insurance | (15,064) | (111,694) |
| Net change in operating accounts: | | |
| Accrued interest receivable and other assets | (1,248,837) | (140,525) |
| Deferred loan costs | (752) | 44,574 |
| Income taxes recoverable | (619,665) | 411,127 |
| Accrued expenses and accounts payable | (723,342) | (219,049) |
| Net cash provided by (used in) operating activities | (312,961) | 688,487 |
| | | |
| Cash flows from investing activities: | | |
| Purchase of certificates of deposit purchased | (4,558,392) | (10,859) |
| Maturities of certificates of deposit purchased | 1,795,407 | 100,000 |
| Purchase of securities available-for-sale | (10,158,091) | (11,843,470) |
| Proceeds from maturities of securities available-for-sale | 9,987,349 | 5,676,740 |
| Proceeds from maturities of securities held to maturity | 384,587 | 1,055,965 |
| Purchase of Federal Home Loan Bank stock | - | (261,500) |
| Proceeds from redemption of Federal Home Loan Bank stock | 1,107,000 | 293,900 |
| Net change in loans receivable | 10,355,267 | 13,679,407 |
| Proceeds from redemption of Bank Owned Life Insurance policies | 2,169,089 | - |
| Purchases of property and equipment | (109,554) | (273,643) |
| Net proceeds from the sale of property and equipment | 313,471 | 27,897 |

| | | | | |
|---|---|---|---|---|
| Net proceeds from sale of real estate owned and repossessed assets | | 996,194 | | 168,890 |
| Net cash provided by investing activities | | 12,282,327 | | 8,613,327 |
| Cash flows from financing activities: | | | | |
| Net change in deposits | | (10,167,288) | | (15,757,954) |
| Net change in retail repurchase agreements | | (2,163,858) | | 139,023 |
| Proceeds from borrowed funds | | (7,000,000) | | 7,000,000 |
| Cash dividends paid | | - | | (155,087) |
| Net cash provided by (used in) financing activities | | (19,331,146) | | (8,774,018) |
| | | | | |
| Net increase (decrease) in cash and cash equivalents | | (7,361,780) | | 527,796 |
| Cash and cash equivalents - beginning of period | | 26,217,607 | | 17,010,093 |
| Cash and cash equivalents - end of period | $ | 18,855,827 | $ | 17,537,889 |
| | | | | |
| Supplemental disclosures of cash flow information: | | | | |
| | | | | |
| Cash paid during the period for: | | | | |
| Interest on deposits and borrowed funds | $ | 1,936,585 | $ | 2,878,742 |
| Income taxes | | 350 | | - |
| | | | | |
| Supplemental schedule of non-cash investing and financing activities: | | | | |
| | | | | |
| Loans transferred to real estate acquired in settlement of loans | $ | 3,309,362 | $ | 872,583 |

See notes to consolidated financial statements

7

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, 2009, 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-K for the year ended June 30, 2009. The results for these interim periods may not be indicative of results for the entire year or for any other period.

2. ACCOUNTING DEVELOPMENTS

Accounting Standards Codification. The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U. S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority federal securities laws are also sources of GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U. S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

FASB ASC Topic 320, "Investments – Debt and Equity Securities" New authoritative accounting guidance under ASC Topic 320, "Investments – Debt and Equity Securities," (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before the recovery of its cost basis. Under ASC Topic 320, declines in the fair value of held-to-maturity and available-for-sale securities below their costs that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company adopted the provisions of the new authoritative accounting guidance under ASC Topic 320 during fiscal year 2009. Adoption of the new guidance did not significantly impact the Company's financial statements.

FASB ASC Topic 810, "Consolidation." New authoritative accounting guidance under ASC Topic 810, "Consolidation," amended prior guidance to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Under ASC Topic 810, a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, ASC Topic 810 requires consolidated net

8

income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. The new authoritative accounting guidance under ASC Topic 810 became effective for the Company on January 1, 2009 and did not have a significant impact on the Company's financial statements.

Further new authoritative accounting guidance under ASC Topic 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. The new authoritative accounting guidance under ASC Topic 810 will become effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

FASB ASC Topic 820, "Fair Value Measurements and Disclosures," New authoritative accounting guidance under ASC Topic 820, "Fair Value Measurements and Disclosures," affirms that the objective of fair value when the market price of an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC Topic 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The new accounting guidance amended prior guidance to expand certain disclosure requirements. The Company adopted the new authoritative accounting guidance under ASC Topic 820 during the first fiscal quarter of 2010. Adoption of the guidance did not significantly impact the Company's financial statements.

Further new authoritative accounting guidance (Accounting Standards Update No. 2009-5) under ASC Topic 820 provides guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the existing principles of ASC Topic 820, such as an income approach or market approach. The new authoritative accounting guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The foregoing new authoritative accounting guidance under ASC Topic 820 will be effective for the Company's financial statements beginning October 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

FASB ASC Topic 825, "Financial Statements," New authoritative accounting guidance under ASC Topic 825, "Financial Statements," requires an entity to provide disclosures about fair value of financial instruments in interim financial information and amends prior guidance to require those disclosures in summarized financial information at interim reporting periods. The new interim disclosures required under Topic 825 are included in Note 6 – Fair Value Measurements.

FASB ASC Topic 855, "Subsequent Events," New authoritative accounting guidance under ASC Topic 855, "Subsequent Events," establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. Events occurring subsequent to December 31, 2009, have been evaluated as to their potential impact to these financial statements through the date of issuance, February 12, 2009.

FASB ASC Topic 860, "Transfers and Servicing," New authoritative accounting guidance under ASC Topic 860, "Transfers and Servicing," amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 will become effective January 1, 2010 and is not expected to have a significant impact on the Company's financial statements.

## 3. EARNINGS PER SHARE

Basic earnings per share is based on net income or loss divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the effect, if any, 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 and six month periods ended December 31, 2009 and 2008.

| | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Basic earnings per common share: | | | | |
| Numerator: | | | | |
| Net income (loss) | $ 46,541 | $ (3,004,864) | $ 245,894 | $ (2,760,125) |
| Denominator: | | | | |
| Weighted average common shares outstanding | 1,550,815 | 1,550,815 | 1,550,815 | 1,550,815 |
| Basic earnings (loss) per common share | $ 0.03 | $ (1.94) | $ 0.16 | $ (1.78) |
| Diluted earnings per common share: | | | | |
| Numerator: | | | | |
| Net income (loss) | $ 46,541 | $ (3,004,864) | $ 245,894 | $ (2,760,125) |
| Denominator: | | | | |
| Weighted average common shares outstanding | 1,550,815 | 1,550,815 | 1,550,815 | 1,550,815 |
| Basic earnings (loss) per common share | $ 0.03 | $ (1.94) | $ 0.16 | $ (1.78) |

4. COMMITMENTS

At December 31, 2009 and June 30, 2009, the Company had outstanding commitments to originate loans totaling $150,000 and $121,000, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets.

5. STOCK OPTION PLAN

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 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. There were no grants made during either the fiscal year ended June 30, 2009 or the six months ended December 31, 2009. The exercise price of options granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeiture rates on its stock-based compensation.

A summary of option activity under the 2004 Stock Option Plan ("Plan") as of December 31 , 2009, and changes during the six months ended December 31, 2009, is presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term ( in months) |
|---|---|---|---|
| Outstanding at beginning of period | 22,000 | $ 16.85 | 88 |
| Granted | - | - | |
| Exercised | - | - | |
| Forfeited or expired | - | - | |
| Outstanding at end of period | 22,000 | $ 16.85 | 82 |
| Exercisable at end of period | 11,200 | $ 16.83 | |

A summary of the Company's non-vested shares as of December 31, 2009, and changes during the six months ended December 31, 2009, is presented below:

| Non-vested Options | Options | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding at beginning of period | 10,800 | $ 6.14 |
| Granted | - | - |
| Exercised | - | - |
| Vested | - | - |
| Forfeited or expired | - | - |
| Outstanding at end of period | 10,800 | $ 6.14 |

As of December 31, 2009, there was $10,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately nine months.

6. FAIR VALUE MEASUREMENTS

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Valuation techniques require the use of inputs that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value effective July 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans. The Company does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Impaired loans measured at fair value typically consist of loans on non-accrual status and loans with a portion of the allowance for loan losses allocated specifically to the loan. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. As a result of the significance of the Level 3 inputs, impaired loans fair values have been classified as Level 3.

Real Estate Owned. Real estate owned represents property acquired through foreclosures and settlements of loans. Property acquired is carried at the lower of the principal amount of the loan outstanding at the time of acquisition, plus any acquisition costs, or the estimated fair value of the property, less disposal costs. The Company considers third party appraisals, as well as, independent fair value assessments from realtors or persons involved in selling real estate owned in determining the fair value of particular properties. Accordingly, the valuation of real estate owned is subject to significant external and internal judgment. The Company periodically reviews real estate owned to determine whether the property continues to be carried at the lower of the recorded book value or the fair value of the property, less disposal costs. As such, the Company classifies real estate owned subjected to non-recurring fair value adjustments as Level 3.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Securities available-for-sale | $ - | $45,553 | $ - | $45,553 |

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities, excluding impaired loans, measured at fair value on a non-recurring basis were not significant at December 31, 2009.

The following table summarizes financial assets measured at fair value on a non-recurring basis as of December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| | (dollars in thousands) | | | |

| | | | | |
|---|---|---|---|---|
| Impaired Loans | $ - | $ - | $2,768 | $2,768 |
| Real estate owned | - | - | 3,957 | 3,957 |

13

Non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

## 7. RECLASSIFICATIONS

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

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

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 the Bank's conversion from a state-charted mutual to a state-chartered stock form of ownership. The transaction was completed on December 22, 1993.

On December 31, 2009, the Company had total assets of $210.1 million, net loans receivable of $119.5 million, total deposits of $179.1 million and stockholders’ equity of $24.0 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 December 31, 2009, compared to June 30, 2009, and the consolidated results of operations for the three-month and six-month periods ended December 31, 2009, compared to the three-month and six-month periods ended December 31, 2008. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended June 30, 2009.

Recent Developments and Corporate Overview

The economic decline that began in calendar 2008 and that has continued through the end of calendar 2009 has created significant challenges for financial institutions such as First Home Savings Bank. Dramatic declines in the housing market, marked by falling home prices and increasing levels of mortgage foreclosures, have resulted in significant write-downs of asset values by many financial institutions, including government-sponsored entities and major commercial and investment banks. In addition, many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers, including other financial institutions, as a result of concern about the stability of the financial markets and the strength of counterparties.

As a result of the losses and projected losses attributed to failed institutions, the FDIC adopted a rule imposing on every insured institution a special assessment equal to 20 basis points of its assessment base as of June 30, 2009 to be collected on September 30, 2009. However, Congress increased the FDIC’s borrowing authority from $30 billion to $100 billion (and up to $500 billion under special circumstances). As the result of the increase in borrowing authority, the special assessment was reduced to five basis points which, in the case of the Bank, amounted to $104,000 which was paid at the end of September 2009. Prior to the collection of the special assessment at the end of September, it became clear that additional funding was needed for the insurance fund. At the end of the calendar year most financial institutions, including the Bank, prepaid estimated assessments through the end of calendar 2012. The prepaid amount will be amortized to expense over the thirty-six months ending December 31, 2012.

On August 17, 2009, the Company and the Bank each entered into a Stipulation and Consent to the Issuance of Order to Cease and Desist (“Orders”) from the OTS. Under the terms of the OTS Orders, the Bank and the Company, without the prior written approval of the OTS, may not:

- Increase assets during any quarter;
- Pay dividends;
- Increase brokered deposits;
- Repurchase shares of the Company’s outstanding common stock; and
- Issue any debt securities or incur any debt (other than that incurred in the normal course of business).

Other material provisions of the Orders require the Bank and the Company to:

- develop a business plan for enhancing, measuring and maintaining profitability, increasing earnings,

15

improving liquidity, maintaining capital levels, acceptable to the OTS;

- ensure the Bank's compliance with applicable laws, rules, regulations and agency guidelines, including the terms of the order;
- not appoint any new director or senior executive officer or change the responsibilities of any current senior executive officers without notifying the OTS;
- not enter into, renew, extend or revise any compensation or benefit agreements for directors or senior executive officers;
- not make any indemnification, severance or golden parachute payments;
- enhance its asset classification policy;
- provide progress reports to the OTS regarding certain classified assets;
- submit a comprehensive plan for reducing classified assets;
- develop a plan to reduce its concentration in certain loans contained in the loan portfolio and that addresses the assessment, monitoring and control of the risks associated with the commercial real estate portfolio;
- not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Bank, or that is outside the normal course of business; and,
- prepare and submit progress reports to the OTS. The OTS orders will remain in effect until modified or terminated by the OTS.

All customer deposits remain insured to the fullest extent permitted by the FDIC. The Bank expects to continue to serve its customers in all areas including making loans, establishing lines of credit, accepting deposits and processing banking transactions. Neither the Company nor the Bank admitted any wrongdoing in entering into the respective Stipulation and Consent to the Issuance of a Cease and Desist Order. The OTS did not impose or recommend any monetary penalties.

In light of the current challenging operating environment, along with our elevated level of non-performing assets, delinquencies, and adversely classified assets, we may be subject to increased regulatory scrutiny, regulatory restrictions, and further enforcement actions including possible civil money penalties. Such enforcement actions could place limitations on our business and adversely affect our ability to implement our business plans.

The annual meeting of the Company was held on October 22, 2009. Directors Harold Glass and R.J. Breidenthal were elected to serve three year terms as members of the Company's board of directors. Mr. Breidenthal is the first cousin of Thomas M. Sutherland, the Chairman of the Board and Chief Executive Officer of the Company and the Bank.

Since November 2008, in light of a continually worsening economy and the departure of several loan officers, the Bank has conducted ongoing, in depth reviews and analyses of the loans in its portfolio, primarily focusing on its commercial real estate, multi-family, development and commercial business loans. During the year ended June 30, 2009, based primarily on this ongoing loan review, and in light of the economic conditions, the Bank recorded a provision for loan losses of $5.3 million for the year. During the six months ended December 31, 2009, no additional provision for loan losses was recorded.

During the quarter ended September 30, 2009, the Company engaged the services of a consultant with an extensive background in commercial real estate, multi-family, development and commercial business lending. The purpose of hiring the consultant was  to assist the Company and the Bank in meeting reporting deadlines established in the Orders and, to validate the methodology used internally to review, evaluate and analyze loans. This consultant performed an extensive review of the Company's credits of $250,000 or larger during the quarter ended September 30, 2009 and performed a follow up review during the quarter ended December 31, 2009.

At its December 19, 2008 meeting, the Board of Directors, following extensive discussions over several months, determined that it was in the best interest of both the Bank and the Company to cash out the Bank Owned Life Insurance ("BOLI") owned by the Bank. As of September 30, 2009, the Company had received all of the cash

16

proceeds from the three insurance companies that had issued policies under the BOLI plan, with the final one-third received in September 2009 and the Bank did not have any BOLI at December 31, 2009.

Financial Condition

As of December 31, 2009, First Bancshares, Inc. had assets of $210.1 million, compared to $229.9 million at June 30. 2009. The decrease in total assets of $19.8 million, or 8.6%, was the result of a decrease of $7.4 million, or 28.1%, in cash and cash equivalents, a decrease of $1.1 million, or 70.0% in FHLB stock, a decrease of $13.7 million, or 10.3%, in loans receivable, net, a decrease of $820,000 or 100.0%, in loans held for sale and a decrease of $2.2 million, or 100.0%, in BOLI. These decreases were partially offset by increases of $2.8 million in certificates of deposit purchased, $1.4 million in prepaid expenses and $2.3 million in real estate owned and other repossessed assets. Deposits decreased $10.2 million, and retail repurchase agreements decreased by $2.2 million. The decreases in deposits and retail repurchase agreements were the result of the current economic climate and generally lower interest rates on deposits.

Loans receivable, net totaled $119.5 million at December 31, 2009, a decrease of $13.7 million, or 10.3%, from $133.2 million at June 30, 2009. The decrease in loans is, in part, the result of decreased originations because of the current uncertainty in the economy, both local and national. These problems have affected many sectors of the economy and have 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 year to 18 months. The decrease in loans was also attributed to the transfer of $3.3 million in loans to real estate owned and repossessed assets.

The Company’s deposits decreased by $10.1 million, or 5.3%, from $189.2 million as of June 30, 2009 to $179.1 million as of December 31, 2009. The decrease is the result of a number of factors, including depositors seeking higher yields available through non-bank entities and, in some cases, the need to use savings for living expenses as a result of loss of employment. The balance of the Company’s retail repurchase agreements decreased by $2.2 million, or 38.6%, from $5.7 million at June 30, 2009 to $3.5 million at December 31, 2009.

As of December 31, 2009 the Company’s stockholders’ equity totaled $24.0 million, compared to $23.8 million as of June 30, 2009. The $258,000 increase of was attributable to net income of $246,000 during the first six months of fiscal 2010, and by a positive change in the mark-to-market adjustment, net of taxes, of $7,000 on the Company’s available-for-sale securities portfolio. In addition, there was a $5,000 increase resulting from the accounting treatment of stock based compensation. There were no dividends paid during the period.

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 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 $5.0 million, or 2.2% of total assets, at June 30, 2009 to $5.4 million, or 2.6% of total assets at December 31, 2009. 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 consisted of an increase of $2.3 million in real estate owned and an increase of $556,000 in loans 90 days or more delinquent and still accruing interest. These increases were partially offset by decreases of $2.0 million in non-accruing loans and $35,000 in other repossessed assets, respectively. Most of the decrease in non-accrual loans was the result of the Company completing the foreclosure process on real estate collateralizing these loans, resulting in the substantial increase in real estate owned. The increase in loans 90 days or more delinquent and still accruing consisted of $105,000 in residential mortgages, $162,000 in commercial real estate loans, and $411,000 in commercial business loans, which were partially offset by a decrease of $122,000 in land loans. The decrease in non-accrual loans consisted of decreases of $593,000, $247,000, $1.2 million and $392,000 in non-accrual residential mortgages, commercial real estate loans, land loans and commercial business loans, respectively. At December 31, 2009, loans 90 days past due and still accruing consisted of two residential mortgages totaling $105,000, one commercial real estate loan totaling $162,000, and two commercial business loan totaling $577,000. Almost all of the loans that became non-accrual or 90 days or more delinquent and still accruing as of December 31, 2009, were loans that had been on the Company's list of watch credits at September 30, 2009. The increase in non-performing assets is a result of two factors. First is the negative economic environment that has existed for nearly two years, which has had an adverse impact on individuals and businesses in the Company's primary market areas, where substantially all of the Company's problem loans are located. Second, there were concerns regarding the Bank's underwriting of some of the loans that were originated prior to May 2008. Since May 2008 the Bank has required that all loan originations, renewals and modifications to be approved by the Directors' Loan Committee. As discussed below, management believes the allowance for loan losses as of December 31, 2009, was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date.

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated.

| | December 31, | | | June 30, | | |
|---|---|---|---|---|---|---|
| | 2009 | 2009 | 2008 | 2007 | 2006 | 2005 |
| | | | (Dollars in thousands) | | | |
| Loans accounted for on a non-accrual basis: | | | | | | |
| Real estate: | | | | | | |
| Residential | $ - | $ 593 | $ 94 | $ 245 | $ 322 | $ 221 |
| Commercial and land | 279 | 1,714 | 1,882 | 2,171 | 306 | 1,112 |
| Commercial business | 324 | 717 | 316 | 467 | 65 | 1,502 |
| Consumer | - | - | 21 | 6 | 148 | 19 |
| Total | $ 603 | $3,024 | $2,313 | $2,889 | $ 841 | $2,854 |
| Accruing loans which are contractually past due 90 days or more: | | | | | | |
| Real estate: | | | | | | |
| Residential | $ 105 | $ - | $ 296 | $ 278 | $ - | $ 63 |
| Commercial and land | 163 | 122 | 64 | 81 | - | 30 |
| Commercial business | 577 | 166 | - | - | - | - |
| Consumer | - | - | - | - | 3 | 55 |
| Total | $ 845 | $ 288 | $ 360 | $ 359 | $ 3 | $ 148 |
| Total of non-accrual and 90 days past due loans | $1,448 | $3,312 | $ 2,673 | $3,248 | $ 844 | $3,002 |
| Real estate owned | 3,834 | 1,549 | 1,206 | 291 | 497 | 340 |
| Repossessed assets | 122 | 158 | - | 2 | - | - |
| Other non-performing assets: | | | | | | |
| Impaired loans not past due | - | - | - | - | - | 2,004 |
| Slow home loans (60 to 90 days past due) | - | - | - | - | - | 450 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total non-performing assets | $5,404 | $5,019 | $ 3,879 | $3,541 | $1,341 | $5,796 |
| Total loans delinquent 90 days or more to net loans | 0.71% | 0.22% | 0.22% | 0.23% | 0.59% | 1.90% |
| Total loans delinquent 90 days or more to total consolidated assets | 0.40% | 0.13% | 0.14% | 0.15% | 0.37% | 1.23% |
| Total non-performing assets to total consolidated assets | 2.57% | 2.18% | 1.56% | 1.47% | 0.59% | 2.39% |

As of June 30, 2009, there were 21 foreclosed properties held for sale totaling $1.6 million. During the six months ended December 31, 2009 twelve properties with a book value of $869,000 were sold resulting in a net gain of $42,000. In addition, during the six month period, three foreclosed properties were written down by a total of $128,000 which was charges to provision for losses on real estate owned. Thirteen properties totaling $3.2 million were foreclosed and added to real estate owned during the six months ended December 31, 2009. These thirteen foreclosures consisted of eight loans on single family residences totaling $743,000, one loan on developed residential building lots totaling $1.4 million, two loans on developed commercial building lots totaling $287,000, one loan on a commercial building totaling $89,000 and one loan on undeveloped land totaling $670,000. Substantially all of the real estate acquired through foreclosure was located in the Company's primary market area. At December 31, 2009, there were 22 foreclosed properties held for sale totaling $3.8 million. There were also repossessed assets totaling $122,000 at December 31, 2009.

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 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 December 31, 2009, the Company had classified $3.3 million of its assets as substandard, $173,000 as doubtful and none as loss. This compares to classifications at June 30, 2009 of $6.1 million as substandard, $4.2 million as doubtful and none as loss. The decrease in classified loans to $3.4 million at December 31, 2009 from $10.3 million at June 30, 2009 is believed to be an indication that the on-going, in-depth review and analysis of the Bank's loan portfolio since November 2008 is helping the Company make progress in resolving problem loan issues.

In addition, classified assets at December 31, 2009 and June 30, 2009 included real estate owned and other repossessed assets of $4.0 million and $1.7 million, respectively. The increase in real estate owned and repossessed assets is the result of completion of foreclosures and repossessions on collateral securing delinquent loans, and was a significant contributor to the decrease in classified loans.

In addition to the classified loans, the Bank has identified an additional $5.2 million of credits at December 31, 2009 on its internal watch list compared to $13.4 million at June 30, 2009. The review and analysis of these loans identified them as credits with some element or elements of possible increased risk. Any deterioration in their financial condition could increase the classified loan totals. The size of the internal watch list is primarily the result of the current state of the economy which had a negative impact on cash flows for both individuals and businesses. This, along with stricter internal policies, which have been in place during the last year, relating to the identification and monitoring of problem loans, has resulted in an increase in the number and the total dollar amount of loans identified as problem loans.

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

At December 31, 2009, the Company has established an allowance for loan losses of $2.0 million compared to $4.2 million at June 30, 2009. The decrease in the allowance for loan losses was due to loan charge offs totaling $2.4

million during the six months ended December 31, 2009. Additionally, the allowance increased through recoveries of $58,000 and the transfer to the allowance of $150,000 that have been reserved on a letter of credit which was funded. The allowance represents approximately 139.2% and 126.4% of the total non-performing loans at December 31, 2009 and June 30, 2009, respectively. The allowance for loan losses reflects management's best estimate of probable losses inherent in the portfolio based on currently available information. The Company believes that the allowance for loan losses as of December 31, 2009 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While the Company believes the estimates and assumptions used in the determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact the Company's financial condition and results of operations. Future additions to the allowance may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio. In addition, the determination of the amount of the Bank's allowance for loan losses is subject to review by bank regulators as part of the examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

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.

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 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 December 31, 2009 and June 30, 2009 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in additional losses.

Valuation of REO and Foreclosed Assets

Real estate properties acquired through foreclosure or by deed-in-lieu of foreclosure (REO) are recorded at the lower of cost or fair value less estimated costs to sell. Fair value is generally determined by management based on a number of factors, including third-party appraisals of fair value in an orderly sale. Accordingly, the valuation of REO is subject to significant external and internal judgment. Any differences between management's assessment of fair value, less estimated costs to sell, and the carrying value of the loan at the date a particular property is transferred into REO are charged to the allowance for loan losses. Management periodically reviews REO values to determine whether the property continues to be carried at the lower of its recorded book value or fair value, net of estimated costs to sell. Any further decreases in the value of REO are considered valuation adjustments and trigger a corresponding charge to non-interest expense in the Consolidated Statements of Operations. Expenses from the maintenance and operations of REO are included in other non-interest expense.

Deferred Income Taxes

Deferred taxes are determined using the liability (or balance sheet) method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Results of Operations for the Three Months Ended December 31, 2009 Compared to the Three Months Ended December 31, 2008

General. For the three months ended December 31, 2009, the Company reported net income of $47,000, or $0.03 per diluted share, compared to a net loss of $3.0 million, or $(1.94) per diluted share, for the same period in 2008. The increase in net income for the 2009 period was primarily attributable to a decrease in the provision for loan losses from $4.2 million during the 2008 period to negative $51,000 during the 2009 period. The negative provision for the quarter was the result of the reversal of the provision for loan losses made during the first quarter of fiscal 2010. Based on the analyses performed by the outside consultant and by management, it was determined that the provision made in the quarter ended September 30, 2009, created an excess in the allowance for loan losses, which was reversed in the quarter ended December 31, 2009. In addition, non-interest expense for the three months ended December 31, 2009 decreased to $1.9 million from $2.2 million during the same period in 2008. These items were partially offset by decreases in net interest income, and non-interest income and an increase in the provision for income taxes.

Net interest income. The Company’s net interest income for the three months ended December 31, 2009 was $1.6 million, compared to $1.8 million for the same period in 2008. The increase reflects a $721,000 decrease in interest income partially offset by a $545,000 decrease in interest expense.

Interest income. Interest income for the three months ended December 31, 2009 decreased $721,000, or 22.4%, to $2.5 million compared to $3.2 million for the same period in 2008. Interest income from loans decreased $587,000 to $1.9 million from $2.5 million in 2008 as a result of a decrease in average loans to $123.8 million during the three months ended December 31, 2009 from $154.4 million during the comparable 2008 period and to a decrease in the yield on loans to 6.20% during the three months ended December 31, 2009 from 6.45% during the comparable period in 2008. The decrease in average loans was the result of a decrease in lending volume during the three months ended December 31, 2009, loan write-offs totaling $2.2 million, transfers of loans totaling $3.3 million to real estate owned and repossessed collateral, and efforts by management to move certain credits out of the Bank. The decrease in yield was the result of a downward trend in interest rates over the two calendar years ending December 31, 2009, which resulted in decreased yields on adjustable rate loans and new loans with smaller yields replacing some of the higher rate loans that paid off, written off or transferred to real estate owned or repossessed collateral.

Interest income from investment securities and other interest-earning assets for the three months ended December 31, 2009 decreased $144,000, or 20.4%, to $561,000 from $705,000 for the same period in 2008. The decrease was the result of a decrease in the yield on these assets to 3.73% for the three months ended December 31, 2009 from 4.32% for the 2008 period which was partially offset by an increase in the average balance of these assets of $9.9 million to $74.6 million for the three months ended December 31, 2009 from $64.7 million for the same period in 2008.

Interest expense. Interest expense for the three months ended December 31, 2009 decreased $545,000 or 39.0%, to $852,000 from $1.4 million for the same period in 2008. Interest expense on deposits decreased $267,000 to

21

$788,000 in the three months ended December 31, 2009 from $1.1 million in the same period in 2008. The decrease resulted from a decrease in the average cost of deposits to 1.84% during the three months ended December 31, 2009 from 2.45% in the 2008 period, and by a decrease in average interest-bearing deposit balances of $1.2 million to $169.8 million during the three months ended December 31, 2009 from $171.0 million in the 2008 period. Interest expense on other interest-bearing liabilities increased $279,000 to $63,000 in the three months ended December 31, 2009 from $342,000 in the comparable period in 2008. The decrease in interest expense on other interest-bearing liabilities was attributable to a decrease in the average cost of other interest bearing liabilities to 2.42% during the three months ended December 31, 2009  from 4.77% during the 2008 period, and by a decrease in the average balance of other interest-bearing liabilities of $18.1 million to $10.3 million during the three months ended December 31, 2009  from $28.4 million during the 2008 period. The average outstanding balance of retail repurchase agreements decreased to $3.8 million during the three months ended December 31, 2009 from $4.7 million during the comparable period in 2008.

Net interest margin. The Company's net interest margin was 3.29% for both the three months ended December 31, 2009 and the three months ended December 31, 2008.

Provision for loan loss. During the quarter ended December 31, 2009, the provision for loan losses was a negative $51,000, compared to $4.2 million for the quarter ended December 31, 2008.  For a discussion of this change, see "Non-performing Assets and Allowance for Loan Losses" herein.

Non-interest income.  For the three months ended December 31, 2009, non-interest income totaled $336,000, compared to $674,000 for the three months ended December 31, 2008.  The $338,000 decrease between the two periods resulted primarily from a decrease in service charges and other fee income of $101,000, a decrease in profit on the sale of loans of $82,000, a decrease of $58,000 in income from BOLI, a decrease of $12,000 in other non-interest income and a provision of $93,000 for losses on real estate owned. These items were partially offset by a decrease of $8,000 in net loss on the sale of property and equipment and real estate owned. The decrease in service charges and other fee income seems to be indicative of the financial services industry as a whole with account holders taking greater care that they do not incur overdraft charges for their accounts. The decrease in gain on the sale of loans resulted from the closing of the loan production office in the quarter ended June 30, 2009. The gain on the sale of loans in the quarter ended December 31, 2009 was the result of the sale of one loan closed for the secondary market in the quarter. The reduction in income on BOLI was attributable to the surrender of the BOLI policies, the final proceeds of which were received in September.

Non-interest expense. Non-interest expense decreased by $354,000 from $2.2 million during the three months ended December 31, 2008 to $1.9 million for the three months ended December 31, 2009. This was the result of decreases of $195,000, $80,000, $6,000 and $222,000 in compensation and benefits, occupancy and equipment expense, professional fees and other non-interest expense, respectively. These decreases were partially offset by an increase of $150,000 in deposit insurance premiums. The decreases in compensation and benefits, occupancy and equipment expense and other non-interest expense are primarily the result of cost reduction and containment efforts begun by current management. The increase in deposit insurance premiums was a 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 Company recorded a tax expense of $108,000 for the three months ended December 31, 2009 as compared to a tax benefit of $962,000 for the three months ended December 31, 2008. The tax provision for the quarter ended December 31, 2009 was larger than would normally be expected due to the effect on the tax calculations of the loan write offs recorded during the quarter and recent changes in the tax laws. Those write offs created a shift in deferred tax assets. The current tax liability increased at the effective current tax rate, while the deferred tax benefit from the timing difference decreased at the higher rate that the Company applies to its timing differences.

Results of Operations for the Six Months Ended December 31, 2009 Compared to the Six Months Ended December 31, 2008

General. For the six months ended December 31, 2009, the Company reported net income of $246,000, or $0.16 per diluted share, compared to a net loss of $2.8 million, or ($1.78) per diluted share, for the same period in 2008. The change from a net loss in 2008 to net income for the 2009 period was primarily the result of the absence of a provision for loan losses during the 2009 period compared to a provision totaling $4.4 million during the 2008 period. In addition, non-interest expense for the six months ended December 31, 2009 decreased by $649,000 to $3.7 million from $4.4 million during the same period in 2008. These items were partially offset by decreases in net interest income, and non-interest income and an increase in the provision for income taxes.

Interest income. Interest income for the six months ended December 31, 2009 decreased $1.5 million, or 22.2%, to $5.2 million compared to $6.6 million for the same period in 2008. Interest income from loans decreased $1.2 million to $4.0 million from $5.2 million in 2008. This was attributable to a decrease in the yield on loans to 6.33% during the 2009 period from 6.57% during the comparable 2008 period, and to a decrease in the average loan balances to $126.9 million during the six months ended December 31, 2009 from $158.2 million during the 2008 period.

Interest income from investment securities and other interest-earning assets for the six months ended December 31, 2009 decreased $281,000 to $1.1 million from $1.4 million for the same period in 2008. The decrease was the result of a decrease in the yield on these assets to 2.97% for the 2009 period from 4.41% for the 2008 period, which was partially offset by an increase in the average balance of these assets of $10.5 million to $74.5 million for the six months ended December 31, 2009 from $64.0 million for the same period in 2008.

Interest expense. Interest expense for the six months ended December 31, 2009 decreased $1.1 million, or 38.3%, to $1.8 million from $2.9 million for the same period in 2008. Interest expense on deposits decreased $560,000 to $1.7 million in the six months ended December 31, 2009 from $2.2 million in the same period in 2008. The decrease resulted from a decrease in average interest-bearing deposit balances of $3.1 million to $171.7 million during the six months ended December 31, 2009 from $174.8 million in the 2008 period and to a decrease in the average cost of deposits to 1.91% during the six months ended December 31, 2009 from 2.51% in the 2008 period. Interest expense on other interest-bearing liabilities decreased $552,000 to $139,000 in the six months ended December 31, 2009 from $691,000 in the comparable period in 2008. The decrease in interest expense on other interest-bearing liabilities was due to a decrease in the average outstanding balances of other interest-bearing liabilities to $12.3 million during the six months ended December 31, 2009 from $27.5 million during the 2008 period, and a decrease in the average cost on other interest-bearing liabilities to 2.25% during the 2009 period from 5.01% during the 2008 period.

Net interest margin. Net interest margin decreased to 3.32% for the six months ended December 31, 2009 from 3.33% for the six months ended December 31, 2008.

Provision for loan loss. During the six months ended December 31, 2009, there was no provision for loan losses, compared to a provision of $4.4 million for the six months ended December 31. 2008. For a discussion of this change, see "Non-performing Assets and Allowance for Loan Losses" herein.

Non-interest income. For the six months ended December 31, 2009, non-interest income totaled $866,000, compared to $1.4 million for the six months ended December 31, 2008. The $565,000 decrease between the two periods resulted primarily from decreases of $211,000, $158,000, $120,000, $97,000 and $30,000 in service charges and other fee income, profit on the sale of loans, provision for losses on real estate owned, income from bank owned life insurance, and other non-interest, respectively. These items were partially offset by a $50,000 change in net gain on sale of property and equipment and real estate owned to gain of $43,000 during the six months ended December 31, 2009 from a net loss of $7,000 during the six months ended December 31, 2008. The decrease in service charges and other fee income seems to be indicative of the financial services industry as a whole with account holders taking greater care that they do not incur overdraft charges for their accounts. The decrease in gain on the sale of loans resulted from the closing of the loan production office in the quarter ended

June 30, 2009. The gain on the sale of loans during the six months ended December 31, 2009 was the result of the sale of one loan closed for the secondary market in the period. The reduction in income on BOLI was attributable to the surrender of the BOLI policies, the final proceeds of which were received in September 2009.

Non-interest expense. Non-interest expense totaled $3.7 million for the six months ended December 31, 2009, compared to $4.4 million for the six months ended December 31, 2008, decreasing by $649,000. This was the result of decreases of $390,000, $177,000 and $295,000 in compensation and benefits, occupancy and equipment, and other non-interest expense, respectively. These increases were partially offset by increases of $3,000 in professional fees and $210,000 in deposit insurance premiums. The decreases in compensation and benefits, occupancy and equipment expense and other non-interest expense are primarily the result of cost reduction and containment efforts begun by current management. The increase in deposit insurance premiums was a result of an increase in the assessment rates by the Federal Deposit Insurance Corporation.

Income tax expense. During the six months ended December 31, 2009, an income tax expense of $250,000 was recorded, compared to an income tax benefit of $846,000 for the six months ended December 31, 2008. The tax benefit on the pre-tax loss of over $3.6 million during the six months ended December 31, 2008 was reduced as a result of the decision to cash in the Bank’s BOLI. Cashing in the BOLI required recording a tax provision of approximately $562,000. No tax provision was previously recorded on income from the BOLI. It did not become a taxable event until it was decided to cash in the policies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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 December 31, 2009, the Company had commitments to originate loans totaling $150,000. 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 December 31, 2009 which, at that date, exceeded the minimum capital adequacy requirements.

| | Actual | | Minimum Requirement For Capital Adequacy Purposes | | Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| At December 31, 2009 (Dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Tangible Capital (to adjusted total assets) | $21,500 | 10.37% | $ 3,110 | 1.50% | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Tier 1 (Core) Capital (to adjusted total assets) | 21,500 | 10.37% | 8,294 | 4.00% | $10,368 | 5.00% |
| Tier 1 (Core) Capital (to risk weighted assets) | 22,591 | 18.55% | 4,635 | 4.00% | 6,952 | 6.00% |
| Total Risk Based Capital (to risk weighted assets) | 22,591 | 19.50% | 9,270 | 8.00% | 11,572 | 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

24

institutions in an undercapitalized category. At December 31, 2009, 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 Cease and Desist Orders 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 cautions readers not to place undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2010 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's operating and stock price performance.

Item 4T. Controls and Procedures

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 December 31 , 2009 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 it 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 December 31 , 2009, 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.

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

FORM 10-Q

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 1A. Risk Factors

There are no material changes from risk factors as previously disclosed in our June 30, 2009 annual report on Form 10-K.

The Company and the Bank are subject to a Cease and Desist Orders that place limitations on their operations and could subject us to civil money penalties if we do not comply with the Orders.

We are subject to a Cease and Desist Orders that the Company and the Bank entered into with the OTS. The Orders place limitations on certain aspects of our business including but not limited to our ability to pay dividends, increase deposits, incur debt, and appointing executive officers and directors. The Orders also require certain actions with respect to the development of a business plan and the reduction of our classified assets and certain lending concentrations. In addition, we may be subject to future enforcement actions or possible civil money penalties if we do not comply with the terms of the Orders.

Increases in deposit insurance premiums and special FDIC assessments will hurt our earnings.

Beginning in late 2008, the economic environment caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. The base assessment rate was increased by seven basis points (seven cents for every $100 of deposits) for the first quarter of 2009. Effective April 1, 2009, initial base assessment rates were changed to range from 12 basis points to 45 basis points across all risk categories with possible adjustments to these rates based on certain debt-related components. These increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions as a result of recent bank and savings association failures. The emergency assessment amounts to five basis points on each institution's assets minus Tier 1 capital as of June 30, 2009, subject to a maximum equal to 10 basis points times the institution's assessment base.

In September 2009, the FDIC proposed a rule that would require financial institutions to prepay its estimated quarterly risk-based assessment for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. This proposal was approved and the estimated assessment for the thirteen quarters was collected near the end of December 2009. The assessment does not immediately impact our earnings because the payment will be expensed over time.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations, including changes that may restrict our ability to foreclose on single-family home loans and offer overdraft protection.

We are subject to extensive examination, supervision and comprehensive regulation by the OTS and the FDIC. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole, and not holders of our common stock. These regulations affect our lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, restrict mergers and acquisitions, investments, access to capital, the location of banking offices, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

New legislation proposed by Congress may give bankruptcy courts the power to reduce the increasing number of home foreclosures by giving bankruptcy judges the authority to restructure mortgages and reduce a borrower’s payments. Property owners would be allowed to keep their property while working out their debts. Other similar bills placing additional temporary moratoriums on foreclosure sales or otherwise modifying foreclosure procedures to the benefit of borrowers and the detriment of lenders may be enacted by either Congress or the State of Missouri in the future. These laws may further restrict our collection efforts on one-to-four single-family loans. Additional legislation proposed or under consideration in Congress would give current debit and credit card holders the chance to opt out of an overdraft protection program and limit overdraft fees which could result in additional operational costs and a reduction in our non-interest income.

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

The Company’s Annual Meeting of Stockholders for the year ended June 30, 2009 was held on October 22, 2009 at the Days Inn located at 300 East 19th Street, Mountain Grove, Missouri. The results of the vote on items presented at the meeting were as follows:

The stockholders elected the following nominees to the Board of Directors for a three-year term ending in 2012 by the following vote:

| | Number of Votes For | Number of Votes Percentage | Withheld | Percentage |
|---|---|---|---|---|
| Harold F. Glass | 930,932 | 89.1% | 114,362 | 10.9% |
| R. J. Breidenthal, Jr. | 982,890 | 94.0% | 62,404 | 6.0% |

The following directors, whose terms did not expire in 2009, and were not up for re-election at the Annual Meeting of Stockholders, continue to serve as directors: D. Mitch Ashlock, Billy E. Hixon, John G. Moody, and Thomas M. Sutherland.

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.

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 thereunto duly authorized.

FIRST BANCSHARES, INC.

| | | | |
|---|---|---|---|
| Date: | February 12, 2010 | By: | /s/ Thomas M. Sutherland___<br>Thomas M. Sutherland,<br>Chief Executive Officer |
| Date: | February 12, 2010 | By: | /s/ Ronald J. Walters<br>Ronald J. Walters, Senior Vice President,<br>Treasurer and Chief Financial Officer |

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. |