FIRST BANCSHARES INC /MS/
Form 10QSB
November 13, 2006

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED: September 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER: 33-94288

THE FIRST BANCSHARES, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

MISSISSIPPI	**64-0862173**
(STATE OF INCORPORATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**
6480 U.S. HIGHWAY 98 WEST	
HATTIESBURG, MISSISSIPPI	**39404-5549**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	**(ZIP CODE)**

(601) 268-8998

(ISSUER S TELEPHONE NUMBER, INCLUDING AREA CODE)

NONE

(FORMER NAME, ADDRESS AND FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

INDICATE BY CHECK MARK WHETHER THE ISSUER: (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 ¨

ON SEPTEMBER 30, 2006, 2,379,630 SHARES OF THE ISSUER S COMMON STOCK, PAR VALUE $1.00 PER SHARE, WERE OUTSTANDING.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): YES ¨ NO x

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT): YES ¨ NO x

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

($ amounts in thousands)	**(Unaudited) September 30, 2006**	**December 31, 2005**
ASSETS		
Cash and due from banks	$ 18,738	$ 12,144
Interest-bearing deposits with banks	892	959
Federal funds sold	11,543	15,785
Total cash and cash equivalents	31,173	28,888
Securities held-to-maturity, at amortized cost	13	14
Securities available-for-sale, at fair value	61,520	48,543
Other securities	2,367	2,103
Loans held for sale	5,094	3,319
Loans	245,978	196,991
Allowance for loan losses	(2,897)	(2,367)
LOANS, NET	243,081	194,624
Premises and equipment	8,527	8,331
Interest receivable	2,266	1,715
Cash surrender value	5,201	5,054
Other assets	2,522	1,799
	$ 361,764	$ 294,390
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 62,246	$ 49,585
Time, $100,000 or more	58,840	49,876
Interest-bearing	181,115	142,488
TOTAL DEPOSITS	302,201	241,949
Interest payable	872	452
Borrowed funds	26,371	25,465
Subordinated debentures	11,217	7,217
Other liabilities	426	829
TOTAL LIABILITIES	341,087	275,912
SHAREHOLDERS EQUITY:		
Common stock, $1 par value. Authorized 10,000,000 shares; 2,406,124 issued at September 30, 2006 and 1,213,844 issued at December 31, 2005.	2,406	1,214
Preferred stock, par value $1 per share, 10,000,000 shares authorized; no shares issued or outstanding		
Treasury stock, at cost, 26,494 shares at September 30, 2006 and December 31, 2005	(464)	(464)
Additional paid-in capital	12,071	13,221
Retained earnings	6,794	4,695
Accumulated other comprehensive income (loss)	(130)	(188)

TOTAL SHAREHOLDERS EQUITY	20,677	18,478
	$ 361,764	$ 294,390

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited)		(Unaudited)	
	Three Months Ended September 30,		**Nine Months Ended September 30,**	
($ amounts in thousands except earnings per share)	**2006**	**2005**	**2006**	**2005**
INTEREST INCOME:				
Loans, including fees	$ 5,259	$ 3,783	$ 14,020	$ 10,232
Securities:				
Taxable	684	211	1,962	632
Tax exempt	59	46	157	134
Federal funds sold	77	61	332	123
Other				
TOTAL INTEREST INCOME	6,079	4,101	16,471	11,121
INTEREST EXPENSE:				
Deposits	2,145	1,122	4,956	2,750
Other borrowings	237	371	1,242	1,090
TOTAL INTEREST EXPENSE	2,382	1,493	6,198	3,840
NET INTEREST INCOME	3,697	2,608	10,273	7,281
PROVISION FOR LOAN LOSSES	289	313	583	750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,408	2,295	9,690	6,531
NONINTEREST INCOME:				
Service charges on deposit accounts	340	295	932	964
Other service charges, commissions and fees	169	73	476	296
Gain on sale of properties			224	
TOTAL NONINTEREST INCOME	509	368	1,632	1,260
NONINTEREST EXPENSES:				
Salaries and employee benefits	1,702	1,221	4,640	3,519
Occupancy and equipment expense	517	298	1,139	806
Other operating expenses	645	536	2,054	1,567
TOTAL NONINTEREST EXPENSES	2,864	2,055	7,833	5,892
INCOME BEFORE INCOME TAXES	1,053	608	3,489	1,899
INCOME TAXES	322	203	1,010	635
NET INCOME	$ 731	$ 405	$ 2,479	$ 1,264
EARNINGS PER SHARE - BASIC	$ .31	$ .17	$ 1.05	$ .53
EARNINGS PER SHARE - ASSUMING DILUTION	$ .29	$ .16	$ .98	$ .51
DIVIDENDS PER SHARE	$	$	$ .16	$ .10

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Compre-hensive Income	Treasury Stock	Total
Balance, January 1, 2005	1,195	$ 12,986	$ 3,019	$ 4	$ (464)	$ 16,740
Net earnings			1,264			1,264
Net change in unrealized gain (loss) on available- for-sale securities, net of tax				(55)		(55)
Exercise of stock options	19	235				254
Cash dividend declared, $.20 per share			(234)			(234)
Balance, September 30, 2005	1,214	$ 13,221	$ 4,049	$ (51)	$ (464)	$ 17,969
Balance, January 1, 2006	1,214	$ 13,221	$ 4,695	$ (188)	$ (464)	$ 18,478
Net earnings			2,479			2,479
2 for 1 stock split	1,188	(1,188)				
Net change in unrealized gain (loss) on available- for-sale securities, net of tax				58		58
2005 options granted		8				8
Exercise of stock Options	4	30				34
Cash dividend declared, $.32 per share			(380)			(380)
Balance, September 30, 2006	2,406	$ 12,071	$ 6,794	$ (130)	$ (464)	$ 20,677

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited)	
	Nine Months Ended September 30,	
($ Amounts in Thousands)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$ 2,479	$ 1,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	426	420
Loss on disposal of assets		61
Provision for loan losses	583	750
Changes in:		
Interest receivable	(551)	(463)
Loans held-for-sale	(1,775)	(1,113)
Cash surrender value	(147)	(1,686)
Interest payable	420	249
Other, net	(1,126)	(372)
NET CASH USED BY OPERATING ACTIVITIES	309	(890)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities and calls of securities available for sale	20,136	7,230
Maturities and calls of securities held-to- maturity		
Purchases of securities available-for-sale	(33,318)	(11,939)
Net increase in loans	(49,040)	(32,447)
Purchases of premises and equipment	(622)	(181)
NET CASH USED BY INVESTING ACTIVITIES	(62,844)	(37,337)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	60,252	59,311
Net increase (decrease) in borrowed funds	906	6,869
Issuance of common stock	42	254
Dividends paid on common stock	(380)	(234)
Issuance of Trust Preferred Securities	4,000	
NET CASH PROVIDED BY FINANCING ACTIVITIES	64,820	66,200
NET INCREASE (DECREASE) IN CASH	2,285	27,973
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,888	7,146
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 31,173	$ 35,119
CASH PAYMENTS FOR INTEREST	$ 5,778	$ 3,591
CASH PAYMENTS FOR INCOME TAXES	1,831	882

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company s Form 10-KSB for the year ended December 31, 2005.

NOTE B SUMMARY OF ORGANIZATION

The First Bancshares, Inc., Hattiesburg, Mississippi (the Company), was incorporated June 23, 1995, under the laws of the State of Mississippi for the purpose of operating as a bank holding company with respect to a then proposed de novo bank, The First National Bank of South Mississippi, Hattiesburg, Mississippi (the Hattiesburg Bank). The Hattiesburg Bank opened for business on August 5, 1996, with a total capitalization of $5.2 million.

On August 10, 1998, the Company filed a registration statement on Form SB-2 relating to the issuance of up to 533,333 shares of Common Stock in connection with the formation of the First National Bank of the Pine Belt (Laurel Bank). The offering was closed on December 31, 1998, with 428,843 shares subscribed with an aggregate purchase price of $6.4 million. On January 19, 1999, the Laurel Bank received approval from its banking regulator to begin banking operations, and the Company used $5 million of the net proceeds to purchase 100% of the capital stock of the Laurel Bank. Simultaneously, the 428,843 shares subscribed to in the offering were issued.

In January, 2004, the two banks merged to become The First, a National Banking Association (The First). The banks were merged to take advantage of operating efficiencies and marketing opportunities. The First engages in general commercial banking business, emphasizing in its marketing the Bank s local management and ownership. The First offers a full range of banking services designed to meet the basic financial needs of its customers. These services include checking accounts, NOW accounts, money market deposit accounts, savings accounts, certificates of deposit, and individual retirement accounts. The First also offers short- to medium-term commercial, mortgage, and personal loans.

At September 30, 2006, the Company had approximately $361.8 million in consolidated assets, $251.1 million in consolidated loans, $302.2 million in consolidated deposits, and $20.7 million in consolidated shareholders equity. For the nine months ended September 30, 2006, the Company reported a consolidated net income of $2.5 million.

In the first quarter of 2005 and 2006, the Company declared and paid dividends of $.10 and $.16 per common share, respectively.

NOTE C EARNINGS PER COMMON SHARE

Basic per share data is calculated based on the weighted-average number of common shares outstanding during the reporting period. Diluted per share data includes any dilution from potential common stock outstanding, such as exercise of stock options.

	For the Three Months Ended September 30, 2006		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 731,000	2,379,630	$ .31
Effect of dilutive shares:			
Stock options		158,579	
Diluted per share	$ 731,000	2,538,209	$ .29

	For the Nine Months Ended September 30, 2006		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 2,479,000	2,377,802	$ 1.05
Effect of dilutive shares:			
Stock options		158,579	
Diluted per share	$ 2,479,000	2,536,381	$ .98

	For the Three Months Ended September 30, 2005		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 405,000	2,372,574	$ .17
Effect of dilutive shares:			
Stock options		122,100	
Diluted per share	$ 405,000	2,494,674	$ .16

	For the Nine Months Ended		
	September 30, 2005		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 1,264,000	2,358,308	$ .53
Effect of dilutive shares:			
Stock options		122,100	
Diluted per share	$ 1,264,000	2,480,408	$ .51

NOTE D - STOCK-BASED COMPENSATION

Prior to January 1, 2006, the Company s stock option plans were accounted for under the recognition and measurement provisions of APB Opinion No. 25 (Opinion 25), Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation (as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure) (collectively SFAS 123). No stock-based employee compensation cost was recognized in the Company s consolidated statements of earnings through December 31, 2005, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). As of December 31, 2005, only 7,930 stock options were not fully vested and no stock options were granted during the three months ended September 30, 2006 or the nine months ended September 30, 2006.

As a result of adopting SFAS 123(R) on January 1, 2006, the Company s earnings before income taxes for the three-months ended September 30, 2006 and the nine months ended September 30, 2006, are not materially different than if it had continued to be accounted for as share-based compensation under Opinion 25. As of September 30, 2006, the Company had 5,283 stock options not fully vested and there was $5,636 of total unrecognized compensation cost related to these non-vested options.

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company s stock option plan for the three months ended September 30, 2006 and the nine months ended September 30, 2006. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and is being amortized to expense over the options vesting periods (in thousands, except per share data).

($ amounts in thousands except for per share data)		**Quarter Ended September 30, 2005**
Net income, as reported	$	405
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(3)
Pro forma net income	$	402
Earnings per share:		
Basic - as reported	$	.17
Basic - pro forma		.17
Diluted - as reported		.16
Diluted - pro forma		.16

		Nine Months Ended September 30, 2005
Net income, as reported	$	1,264
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(4)
Pro forma net income	$	1,260
Earnings per share:		
Basic - as reported	$	.53
Basic - pro forma		.53
Diluted - as reported		.51
Diluted - pro forma		.51

NOTE E - COMPREHENSIVE INCOME

The following table discloses Comprehensive Income for the periods reported in the Consolidated Statements of Income:

(In thousands)	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005
Net Income	$ 731	$ 405
Other Comprehensive Income (loss) net of tax:		
Unrealized holding gains (losses) on securities during the period, net of taxes	483	(9)
Comprehensive Income	$ 1,214	$ 396
Accumulated Comprehensive Loss	$ (130)	$ (51)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Income	$ 2,479	$ 1,264
Other Comprehensive Loss net of tax:		
Unrealized holding losses on securities during the period, net of taxes	58	(55)
Comprehensive Income	$ 2,537	$ 1,209
Accumulated Comprehensive Loss	$ (130)	$ (51)

NOTE F STOCK DIVIDEND

During the quarter ending March 31, 2006, the Company declared a two-for-one split of the Common Stock to be effected in the form of a 100 percent common stock dividend. All per share data for previous periods have been adjusted for the stock dividend.

ITEM NO. 2 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

The following discussion contains forward-looking statements relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of the Company s management, as well as assumptions made by and information currently available to the Company s management. The words expect, estimate, anticipate, and believe, as well as similar expressions, are intended to identify forward-looking statements. The Company s actual results may differ materially from the results discussed in the forward-looking statements, and the Company s operating performance each quarter is subject to various risks and uncertainties that are discussed in detail in the Company s filings with the Securities and Exchange Commission, including the Risk Factors section in the Company s Registration Statement on Form SB-2 (Registration Number 333-61081) as filed with and declared effective by the Securities and Exchange Commission.

The First represents the primary asset of the Company. The First reported total assets of $360.5 million at September 30, 2006, compared to $292.8 million at December 31, 2005. Loans increased $50.8 million, or 25.3%, during the first nine months of 2006. Deposits at September 30, 2006, totaled $303.2 million compared to $243.8 million at December 31, 2005. For the nine month period ended September 30, 2006, The First reported net income of $2.7 million compared to $1.5 million for the nine months ended September 30, 2005.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At September 30, 2006, The First had no concentrations of ten percent or more of total loans in any single industry nor any geographical area outside their immediate market areas.

At September 30, 2006, The First had loans past due as follows:

	($ In Thousands)
Past due 30 through 89 days	$ 2,403
Past due 90 days or more and still accruing	725

The accrual of interest is discontinued on loans which become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled $798,000 at September 30, 2006. Any other real estate owned is carried at the lower of cost or fair value, determined by an appraisal. Other real estate owned totaled $269,000 at September 30, 2006. A loan is classified as a restructured loan when the interest rate is materially reduced or the term is extended beyond the original maturity date because of the inability of the borrower to service the debt under the original terms. The First had no restructured loans at September 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is considered adequate with cash and cash equivalents of $31.2 million as of September 30, 2006. In addition, loans and investment securities repricing or maturing within one year or less exceeded $143.9 million at September 30, 2006. Approximately $49.6 million in loan commitments are expected to be funded within the next six months and other commitments, primarily standby letters of credit, totaled $2.7 million at September 30, 2006.

There are no known trends or any known commitments of uncertainties that will result in the Company s liquidity increasing or decreasing in a material way. In addition, the Company is not aware of any recommendations by any regulatory authorities which would have a material effect on its liquidity, capital resources or results of operations.

Total consolidated equity capital at September 30, 2006, is $20.7 million, or approximately 5.7% of total assets. The Company currently has adequate capital positions to meet the minimum capital requirements for all regulatory agencies. The capital ratios as of September 30, 2006, are as follows:

Tier 1 leverage	8.28%
Tier 1 risk-based	10.41%
Total risk-based	13.04%

On March 26, 2002, The First Bancshares Statutory Trust 1 (the Trust), a wholly-owned subsidiary trust of the Company, issued $7,000,000 of redeemable cumulative trust preferred securities. The Trust used the funds to acquire floating rate subordinated debentures from the Company. The debentures bear an interest rate of the 3-month LIBOR plus 3.60%. The debentures have a maturity of 30 years but are callable 5 years after issuance. On June 30, 2006, The First Bancshares Statutory Trust 2 (the Trust 2), a wholly-owned subsidiary trust of the Company, issued $4,000,000 of redeemable cumulative trust preferred securities. The Trust 2 used the funds to acquire floating rate subordinated debentures from the Company. The debentures bear an interest rate of the 3-month LIBOR plus 1.65%. The debentures have a maturity of 30 years but are callable 5 years after issuance. The trust preferred securities qualify as Tier 1 capital up to 25% of other components of Tier 1 capital. The Federal Reserve Board has issued a rule that retains trust preferred securities in Tier 1 capital but with stricter quantitative limits and clearer qualitative standards. In accordance with FIN 46, Consolidation of Variable Interest Entities the statutory trust is not included in the consolidated financial statements. Instead the subordinated debentures due to the statutory trust are included in the consolidated liabilities of the Company.

RESULTS OF OPERATIONS QUARTERLY

The Company had a consolidated net income of $731,000 for the three months ending September 30, 2006, compared with consolidated net income of $405,000 for the same period last year.

Net interest income increased to $3.7 million from $2.6 million for the three months ending September 30, 2006, or an increase of 41.7% as compared to the same period in 2005. Earning assets through September 30, 2006, increased $27.4 million and interest-bearing liabilities also increased $24.0 million when compared to June 30, 2006, reflecting increases of 9.1% and 9.5%, respectively.

Noninterest income for the three months ending September 30, 2006, was $509,000 compared to $368,000 for the same period in 2005, reflecting an increase of $141,000 or 38.3%. Included in noninterest income is service charges on deposit accounts, which for the three months ended September 30, 2006, totaled $340,000 compared to $295,000 for the same period in 2005.

The provision for loan losses was $289,000 for the three months in 2006 compared with $313,000 for the same period in 2005.

Non interest expense increased by $809,000 or 39.4% for the three months ended September 30, 2006, when compared with the same period in 2005. The increase is primarily due to the continued growth and the related services being offered.

RESULTS OF OPERATIONS YEAR TO DATE

The Company had a consolidated net income of $2,479,000 for the nine months ending September 30, 2006, compared with consolidated net income of $1,264,000 for the same period last year.

Net interest income increased to $10,273,000 from $7,281,000 for the first nine months ending September 30, 2006, or an increase of 41.1% as compared to the same period in 2005. Earning assets through September 30, 2006, increased $69.4 million and interest-bearing liabilities also increased $61.1 million when compared to September 30, 2005, reflecting increases of 26.9% and 28.2%, respectively.

Noninterest income for the nine months ending September 30, 2006, was $1,632,000 compared to $1,260,000 for the same period in 2005, reflecting an increase of $372,000 or 29.5%. For the nine months ending September 30, 2006, the Company reported a gain of $224,000 related to the sale of property. Included in noninterest income is service charges on deposit accounts, which for the nine months ended September 30, 2006, totaled $932,000, compared to $964,000 for the same period in 2005.

The provision for loan losses was $583,000 in the first nine months of 2006 compared with $750,000 for the same period in 2005. The allowance for loan losses of $2.9 million at September 30, 2006 (approximately 1.18% of loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management s assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. Management evaluates the adequacy of the allowance for loan losses quarterly and makes provisions for loan losses based on this evaluation.

Noninterest expenses increased by $1.9 million or 32.9% for the nine months ended September 30, 2006, when compared with the same period in 2005. The increase is primarily due to the continued growth and the related services being offered.

ACQUISITION

Effective October 1, 2006, The First Bancshares, Inc. acquired all of the issued and outstanding shares of The First National Bank of Wiggins, headquartered in Wiggins, Mississippi, in exchange for 108,712 shares of The First Bancshares, Inc. and $2,077,842.36 in cash. The acquisition will be accounted for using the purchase method of accounting, and accordingly, the results of operations of The First National Bank of Wiggins will be included in The First Bancshares, Inc. consolidated financial statements beginning October 1, 2006.

STOCK OFFERING

The First Bancshares, Inc. is selling 365,000 shares of its Common Stock, par value $1.00 per share. The public offering price is $22.50 per share. All of the 365,000 shares of Common Stock offered hereby are being sold by the Company through its directors, executive officers, and bank market presidents, none of whom are receiving any compensation for sales of the Common Stock made hereunder. This is a best efforts offering by the Company, and it will be terminated by the Company upon the sale of 365,000 shares or December 30, 2006, whichever occurs first, unless the Company extends the offering for additional periods ending no later than March 31, 2007. There is no minimum number of shares required to be sold under the Offering. Individual subscriptions must be for no less than 100 shares and no more than 44,445 shares of the Common Stock.

ITEM NO. 3. CONTROLS AND PROCEDURES

As of September 30, 2006, (the Evaluation Date), we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under periods specified in SEC rules and forms.

There have been no changes, significant or otherwise, in our internal controls over financial reporting that occurred during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

During the quarter ended September 30, 2006, The First Bancshares, Inc. filed the following Current Reports on Form 8-K with the Commission:

Current Report on Form 8-K dated July 11, 2006, reporting Item 7.01, regarding The First Bancshares, Inc. s CEOs participation in a phone interview with Wallstreet.net.

Current Report on Form 8-K dated August 2, 2006, reporting Item 2.02, which item 2.02 contained financial statements filed as Exhibit (99.1), relating to the announcement of The First Bancshares, Inc. s second quarter 2006 earnings results.

SIGNATURES

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

	THE FIRST BANCSHARES, INC. (Registrant)
November 10, 2006 (Date)	/s/ David E. Johnson David E. Johnson, Chief Executive Officer
November 10, 2006 (Date)	/s/ Dee Dee Lowery Dee Dee Lowery Executive Vice President and Chief Financial Officer