FIRST BANCSHARES INC /MS/
Form 10-Q
August 16, 2010
U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: June 30, 2010

OR

o 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 ISSUER AS SPECIFIED IN ITS CHARTER)

MISSISSIPPI (STATE OF INCORPORATION)	64-0862173 (I.R.S. EMPLOYER IDENTIFICATION NO.)
6480 U.S. HIGHWAY 98 WEST HATTIESBURG, MISSISSIPPI (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	39402 (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 o

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF “ACCELERATED FILER AND LARGE ACCELERATED FILER” IN RULE 12B-2 OF THE EXCHANGE ACT.

LARGE ACCELERATED FILER o ACCELERATED FILER o NON-ACCELERATED FILER x

ON June 30, 2010, 3,019,869 SHARES OF THE ISSUER'S COMMON STOCK, PAR VALUE $1.00 PER SHARE, WERE ISSUED AND OUTSTANDING.

TRANSITIONAL DISCLOSURE FORMAT (CHECK ONE): YES o NO x

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

PART I - FINANCIAL INFORMATION

ITEM NO. 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

($ amounts in thousands)	(Unaudited) June 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 14,026	$ 8,120
Interest-bearing deposits with banks	1,348	296
Federal funds sold	13,079	7,575
Total cash and cash equivalents	28,453	15,991
Securities held-to-maturity, at amortized cost	3	3
Securities available-for-sale, at fair value	105,327	112,231
Other securities	2,365	2,384
Total securities	107,695	114,618
Loans held for sale	4,964	3,692
Loans	326,488	315,103
Allowance for loan losses	(4,293)	(4,762)
Loans, net	327,159	314,033
Premises and equipment	14,480	14,279
Interest receivable	2,307	2,318
Cash surrender value of life insurance	5,985	5,857
Goodwill	702	702
Other assets	10,230	9,754
	$ 497,011	$ 477,552
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 46,944	$ 48,527
Interest-bearing	358,235	335,227
TOTAL DEPOSITS	405,179	383,754
Interest payable	421	672
Borrowed funds	30,906	32,037
Subordinated debentures	10,310	10,310
Other liabilities	5,769	7,163
TOTAL LIABILITIES	452,585	433,936

STOCKHOLDERS’ EQUITY:		
Preferred stock, no par value, $1,000 per share liquidation, 10,000,000 shares authorized; 5,000 shares issued and outstanding at June 30, 2010 and at December 31, 2009	4,801	4,773
Common stock, $1 par value authorized 10,000,000 shares; 3,046,363 shares issued at June 30, 2010 and at December 31, 2009	3,046	3,046
Additional paid-in capital	23,418	23,418
Retained earnings	13,674	12,944
Accumulated other comprehensive loss	(49)	(101)
Treasury stock, at cost, 26,494 shares at June 30, 2010 and at December 31, 2009	(464)	(464)
TOTAL STOCKHOLDERS' EQUITY	44,426	43,616
	$ 497,011	$ 477,552

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

($ amounts in thousands, except earnings and dividends per share)

	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	(Unaudited) Six Months Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2009
INTEREST INCOME:				
Interest and fees on loans	$ 5,119	$ 5,165	$ 10,129	$ 10,348
Interest and dividends on securities:				
Taxable interest and dividends	518	730	1,086	1,551
Tax exempt interest	296	227	597	441
Interest on federal funds sold	11	34	16	69
TOTAL INTEREST INCOME	5,944	6,156	11,828	12,409
INTEREST EXPENSE:				
Interest on deposits	1,496	2,214	3,223	4,462
Interest on borrowed funds	369	420	736	984
TOTAL INTEREST EXPENSE	1,865	2,634	3,959	5,446
NET INTEREST INCOME	4,079	3,522	7,869	6,963
PROVISION FOR LOAN LOSSES	217	464	382	1,092
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,862	3,058	7,487	5,871
OTHER INCOME:				
Service charges on deposit accounts	609	612	1,186	1,205
Other service charges and fees	368	515	739	1,019
Gain on sale of investment securities	51	-	51	-
Impairment loss on securities:				
Total other-than-temporary impairment gain (loss)	(242)	(218)	(283)	(218)
Less: Portion of (gain)loss recognized in other comprehensive income	200	147	134	147
Net impairment loss recognized in earnings	(42)	(71)	(149)	(71)
TOTAL OTHER INCOME	986	1,056	1,827	2,153
OTHER EXPENSES:				
Salaries and employee benefits	2,169	2,087	4,272	4,215

Occupancy and equipment		549		546		1,066		1,097
Other		1,177		1,257		2,255		2,236
TOTAL OTHER EXPENSES		3,895		3,890		7,593		7,548
INCOME BEFORE INCOME TAXES		953		224		1,721		476
INCOME TAXES		304		43		536		104
NET INCOME		649		181		1,185		372
PREFERRED DIVIDENDS		63		63		125		101
PREFERRED STOCK ACCRETION		14		14		28		28
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS	$	572	$	104	$	1,032	$	243
NET INCOME APPLICABLE TO COMMON STOCKHOLDERS:								
BASIC	$	.19	$	.03	$	.34	$	.08
DILUTED		.19		.03		.34		.08
DIVIDENDS PER SHARE - COMMON		.025		-		.10		-

THE FIRST BANCSHARES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2009	$ 3,017	$ -	$ 22,942	$ 11,482	$ (409)	$ (464)	$ 36,568
Net income	-	-	-	372	-	-	372
Net change in unrealized gain (loss) on available-for-sale securities, net of tax	-	-	-	-	97	-	97
Issuance of preferred stock and warrant	-	4,716	284	-	-	-	5,000
Exercise of stock options	29	-	195	-	-	-	224
Accretion of preferred stock discount	-	28	-	(28)	-	-	-
Dividends on preferred stock	-	-	-	(101)	-	-	(101)
Balance, June 30, 2009	$ 3,046	$ 4,744	$ 23,421	$ 11,725	$ (312)	$ (464)	$ 42,160
Balance, January 1, 2010	$ 3,046	$ 4,773	$ 23,418	$ 12,944	$ (101)	$ (464)	$ 43,616
Net income	-	-	-	1,185	-	-	1,185
Net change in unrealized gain (loss) on available-for-sale securities, net of tax	-	-	-	-	27	-	27
Net change in unrealized gain (loss)							

on derivative, net of tax	-	-	-	-	25	-	25
Accretion of preferred stock discount	-	28	-	(28)	-	-	-
Dividends on preferred stock	-	-	-	(125)	-	-	(125)
Dividends on common stock, $.10 per share	-	-	-	(302)	-	-	(302)
Balance, June 30, 2010	$ 3,046	$ 4,801	$ 23,418	$ 13,674	$ (49)	$ (464)	$ 44,426

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Amounts in Thousands)

	(Unaudited) Six Months Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$ 1,185	$ 372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	604	614
Impairment loss on securities	149	71
Gain on sale of securities	(51)	-
Provision for loan losses	382	1,092
Loss on sale/writedown of ORE	52	106
Loss on disposal of premises and equipment	-	28
Increase in cash value of life insurance	(128)	(104)
Federal Home Loan Bank stock dividends	(2)	(10)
Changes in:		
Interest receivable	11	331
Loans held for sale	(1,272)	(872)
Interest payable	(251)	(138)
Other, net	(25)	2,136
NET CASH PROVIDED BY OPERATING ACTIVITIES	654	3,626
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities and calls of securities available-for-sale	30,067	26,709
Purchases of securities available-for-sale	(24,445)	(39,056)
(Increase)decrease in other securities	20	(210)
Proceeds from sale of securities available-for-sale	1,051	-
Net (increase) decrease in loans	(14,219)	1,571
Net (additions)disposals in premises and equipment	(533)	278
NET CASH USED IN INVESTING ACTIVITIES	(8,059)	(10,708)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	21,425	13,782
Net decrease in borrowed funds	(1,131)	(10,566)
Dividends paid on common stock	(302)	-
Dividends paid on preferred stock	(125)	(101)

Proceeds from issuance of preferred stock				
and warrants		-		5,000
Exercise of stock options		-		223
NET CASH PROVIDED BY FINANCING ACTIVITIES		19,867		8,338
NET INCREASE IN CASH		12,462		1,256
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		15,991		25,008
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	28,453	$	26,264
SUPPLEMENTAL DISCLOSURES:				
CASH PAYMENTS FOR INTEREST	$	4,210		5,584
CASH PAYMENTS FOR INCOME TAXES		607		544
LOANS TRANSFERRED TO OTHER REAL ESTATE		1,983		415

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-Q 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 six months ended June 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 2009.

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. The Company’s primary asset is its interest in its wholly-owned subsidiary, The First, A National Banking Association (the Bank).

At June 30, 2010, the Company had approximately $497.0 million in assets, $331.5 million in loans,$405.2 million in deposits, and $44.4 million in stockholders' equity. For the six months ended June 30, 2010, the Company reported a net income of $1,185,000 ($1,032,000 applicable to common stockholders).

No dividend was paid on common shares during 2009.

In the first quarter of 2010, the Company declared and paid a special dividend of $.05 and a quarterly dividend of $.025 for a total dividend of $.075 per common share.

In the second quarter of 2010, the Company declared and paid a dividend of $.025 per common share.

NOTE C – PREFERRED STOCK AND WARRANT

On February 6, 2009, as part of the U.S. Department of Treasury’s (“Treasury”) Capital Purchase Program (“CPP”), the Company received a $5.0 million equity investment by issuing 5 thousand shares of Series A, no par value preferred stock to the Treasury pursuant to a Letter Agreement and Securities Purchase Agreement that was previously disclosed by the Company. The Company also issued a warrant to the Treasury allowing it to purchase 54,705 shares of the Company’s common stock at an exercise price of $13.71. The warrant can be exercised immediately and has a term of 10 years.

The non-voting Series A preferred shares issued, with a liquidation preference of $1 thousand per share, will pay a cumulative cash dividend quarterly at 5% per annum during the first five years the preferred shares are outstanding, resetting to 9% thereafter if not redeemed. The CPP also includes certain restrictions on dividend payments of the Company's lower ranking equity and the ability to purchase its outstanding common shares.

The Company allocated the proceeds received from the Treasury, net of transaction costs, on a pro rata basis to the Series A preferred stock and the warrant based on their relative fair values. The Company assigned $.3 million and $4.7 million to the warrant and the Series A preferred stock, respectively. The resulting discount on the Series A preferred stock is being accreted up to the $5.0 million liquidation amount over the five year expected life of the Series A preferred stock.

NOTE D -- EARNINGS APPLICABLE TO COMMON STOCKHOLDERS

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 June 30, 2010		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 572,000	3,019,869	$ .19
Diluted per share	$ 572,000	3,019,869	$ .19

	For the Six Months Ended June 30, 2010		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 1,032,000	3,019,869	$ .34
Diluted per share	$ 1,032,000	3,019,869	$ .34

	For the Three Months Ended June 30, 2009		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 104,000	3,015,496	$ .03
Diluted per share	$ 104,000	3,015,496	$ .03

	For the Six Months Ended June 30, 2009		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 243,000	3,002,991	$ .08

Diluted per share	$	243,000	3,002,991	$	.08

No stock options were granted during the six months ended June 30, 2010.

NOTE E -- COMPREHENSIVE INCOME

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

(In thousands)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net Income	$ 649	181	$ 1,185	$ 372
Other Comprehensive Income, net of tax:				
Unrealized holding gains (losses)on available-for-sale securities during the period	(434)	(398)	27	97
Unrealized gain on derivative carried at fair value during the period	24	-	25	-
Comprehensive Income (Loss)	$ 239	$ (217)	$ 1,237	$ 469
Unrealized holding gains (losses) on available- for-sale securities during the period	$ (434)	$ (398)	$ 27	$ 97
Unrealized gain on derivative carried at fair value during the period	24	-	25	-
Accumulated Other Comprehensive Income (Loss),beginning of period	361	86	(101)	(409)
Accumulated Other Comprehensive Income, (Loss), end of period	$ (49)	$ (312)	$ (49)	$ (312)

NOTE F -- FAIR VALUE OF ASSETS AND LIABILITIES

The Company groups its financial assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets.

Available-for-Sale Securities

The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include U.S. Treasury securities, obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, mortgage-backed securities and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the Company’s assets that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fell as of June 30, 2010 and December 31, 2009 (in thousands):

June 30, 2010

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 105,327	$ 907	$ 101,375	$ 3,045

December 31, 2009

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 112,231	$ 958	$ 108,040	$ 3,233

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information.

(Dollars in thousands)	Bank-Issued Trust Preferred Securities	
	2010	2009
Balance, January 1	$ 3,233	$ -
Transfers into Level 3	-	5,338
Transfers out of Level 3	-	-
Other-than-temporary impairment loss included in earnings	(84)	(111)
Unrealized loss included in comprehensive income	(104)	(1,994)
Balance at June 30, 2010 and December 31, 2009	$ 3,045	$ 3,233

Following is a description of the valuation methodologies used for assets measured at fair value on a non-recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of applicable authoritative guidance. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, or premium or discount existing at origination or acquisition of the loan. Impaired loans are classified within Level 2 of the fair value hierarchy.

Other Real Estate Owned

Other real estate owned acquired through loan foreclosure is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through non-interest expense. Operating costs associated with the assets after acquisition are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other non-interest expense. Other real estate owned measured at fair value on a non-recurring basis at June 30, 2010, amounted to $3.8 million.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at June 30, 2010 and December 31, 2009.

June 30, 2010

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 5,242	$ -	$ 5,242	$ -
Other real estate owned	$ 3,822	$ -	$ 3,822	$ -

December 31, 2009

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 20,609	$ -	$ 20,609	$ -
Other real estate owned	$ 2,903	$ -	$ 2,903	$ -

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents – For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment in securities available-for-sale and held-to-maturity – The fair value measurement for securities available-for-sale was discussed earlier. The same measurement approach was used for securities held-to-maturity.

Loans – The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits – The fair values of demand deposits are, as required by authoritative guidance, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

Short-Term Borrowings – The carrying value of any federal funds purchased and other short-term borrowings approximates their fair values.

FHLB and Other Borrowings – The fair value of the fixed rate borrowings are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowing approximates its fair value.

Subordinated Debentures – The subordinated debentures bear interest at a variable rate and the carrying value approximates the fair value.

Off-Balance Sheet Instruments – Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed. Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

	As of June 30, 2010		As of December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Instruments:				
Assets:				
Cash and cash equivalents	$ 28,453	$ 28,453	$ 15,991	$ 15,991
Securities available-for-sale	105,327	105,327	112,231	112,231
Securities held-to-maturity	3	3	3	3
Other securities	2,365	2,365	2,384	2,384
Loans, net	327,159	339,443	314,033	326,271
Liabilities:				
Noninterest-bearing deposits	$ 46,944	$ 46,944	$ 48,527	$ 48,527
Interest-bearing deposits	358,235	359,489	335,227	337,238
Subordinated debentures	10,310	10,310	10,310	10,310
FHLB and other borrowings	30,906	30,906	32,037	32,037

NOTE G -- LOANS

Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At June 30, 2010 and December 31, 2009, respectively, loans accounted for 73.1% and 72.2% of earning assets. Management attempts to control and counterbalance the inherent credit and liquidity risks associated with the higher loan yields without sacrificing asset quality to achieve its asset mix goals.

The following table shows the composition of the loan portfolio by category:

	Composition of Loan Portfolio			
	June 30, 2010 Amount	Percent of Total	December 31, 2009 Amount	Percent of Total
	(Dollars in thousands)			
Mortgage loans held for sale...	$ 4,964	1.5%	$ 3,692	1.2%
Commercial, financial and agricultural	50,432	15.2	43,229	13.6
Real Estate:				
Mortgage-commercial	101,230	30.5	87,492	27.4
Mortgage-residential	103,092	31.1	102,738	32.2
Construction	61,383	18.5	68,695	21.5
Consumer and other	10,351	3.2	12,949	4.1
Total loans	331,452	100	318,795	100
Allowance for loan losses	(4,293)		(4,762)	
Net loans	$ 327,159		$ 314,033	

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than a loan for construction purposes, secured by real estate, regardless of the purpose of the loan. The Company follows the common practice of financial institutions in the Company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes it will reduce the risk elements of its loan portfolio through strategies that diversify the lending mix.

Loans held for sale consist of mortgage loans originated by the Bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

The following tables represent how the allowance for loan losses is allocated to a particular loan type as well as the percentage of the category to total loans at December 31, 2009 and June 30, 2010.

Allocation of the Allowance for Loan Losses

	June 30, 2010 (Dollars in thousands)		
		Amount	% of loans in each category to total loans
Commercial Non Real Estate	$	570	15.7%
Commercial Real Estate		2,802	61.9
Consumer Real Estate		633	17.4
Consumer		153	2.9
Unallocated		135	2.1
Total	$	4,293	100%

	December 31, 2009 (Dollars in thousands)		
		Amount	% of loans in each category to total loans
Commercial Non Real Estate	$	1,015	13.9%
Commercial Real Estate		2,564	62.2
Consumer Real Estate		687	17.8
Consumer		317	3.9
Unallocated		179	2.2
Total	$	4,762	100%

The following table represents the Company's impaired loans at December 31, 2009 and June 30, 2010. This table excludes performing troubled debt restructurings.

		June 30, 2010		December 31, 2009
		(In thousands)		
Impaired Loans:				
Impaired loans without a valuation allowance	$	3,459	$	12,295
Impaired loans with a valuation allowance		1,783		8,314
Total impaired loans	$	5,242	$	20,609
Allowance for loan losses on impaired loans at period end	$	665	$	2,004
Total nonaccrual loans		5,144		4,367
Past due 90 days or more and still accruing		288		1,447
Average investment in impaired loans		12,926		19,114
Interest paid on impaired loans for the six month period ended June 30, 2010 and year ended December 31, 2009		451		1,297

NOTE H -- SECURITIES

The following disclosure of the estimated fair value of financial instruments is made in accordance with authoritative guidance. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

A summary of the amortized cost and estimated fair value of available-for-sale securities and held-to-maturity securities at June 30, 2010, follows:

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government Agencies	$ 25,409	$ 221	$ 1	$ 25,629
Tax-exempt and taxable obligations of states and municipal subdivisions	46,383	1,152	38	47,497
Mortgage-backed securities	22,293	924	67	23,150
Corporate obligations	10,146	13	2,015	8,144
Other	1,190	-	283	907
Total	$ 105,421	$ 2,310	$ 2,404	$ 105,327
Held-to-maturity securities:				
Mortgage-backed securities	$ 3	$ 0	$ 0	$ 3

NOTE I -- ALLOWANCE FOR LOAN LOSSES

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management’s judgment as to the adequacy of the allowance is based upon a number of assumptions which it believes to be reasonable, but which may not prove to be accurate, particularly given the Company’s short operating history and rapid growth. 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.

The Company’s allowance consists of two parts. The first part is determined in accordance with authoritative guidance regarding contingencies. The Company’s determination of this part of the allowance is based upon quantitative and qualitative factors. A loan loss history based upon the three year quarterly moving average is utilized in determining the appropriate allowance. Historical loss factors are determined by graded and ungraded loans by loan type. These historical loss factors are applied to the loans by loan type to determine an indicated allowance. The loss factors of peer groups are considered in the determination of the allowance and are used to assist in the establishment of a long-term loss history for areas in which this data is unavailable and incorporated into the qualitative factors to be considered. The historical loss factors may also be modified based upon other qualitative factors including but not limited to local and national economic conditions, trends of delinquent loans, changes in lending policies and underwriting standards, concentrations, and management’s knowledge of the loan portfolio. These factors require judgment upon the part of management and are based upon state and national economic reports received from various institutions and agencies including the Federal Reserve Bank, United States Bureau of Economic Analysis, Bureau of Labor Statistics, meetings with the Company’s loan officers and loan committee, and data and guidance received or obtained from the Company’s regulatory authorities.

The second part of the allowance is determined in accordance with authoritative guidance regarding loan impairment. Impaired loans are determined based upon a review by internal loan review and senior loan officers. Impaired loans are loans for which the Bank does not expect to receive contractual interest and/or principal by the due date. A specific allowance is assigned to each loan determined to be impaired based upon the value of the loan's underlying collateral. Appraisals are used by management to determine the value of the collateral.

The sum of the two parts constitutes management's best estimate of an appropriate allowance for loan losses. When the estimated allowance is determined, it is presented to the Company's audit committee for review and approval on a quarterly basis.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis. Impaired loans not deemed collateral dependent are analyzed according to the ultimate repayment source, whether that is cash flow from the borrower, guarantor or some other source of repayment. Impaired loans are deemed collateral dependent if in the Company's opinion the ultimate source of repayment will be generated from the liquidation of collateral.

The Company discontinues accrual of interest on loans when management believes, after considering economic and business conditions and collection efforts, that a borrower's financial condition is such that the collection of interest is doubtful. Generally, the Company will place a delinquent loan in nonaccrual status when the loan becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

NOTE J – SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through the date the financial statements were issued.

NOTE K – RECLASSIFICATION

Certain amounts in the 2009 financial statements have been reclassified for comparative purposes to conform to the current period financial statement presentation.

ITEM NO. 2 MANAGEMENT'S 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 most recently filed Form 10-K.

The First represents the primary asset of the Company. The First reported total assets of $496.1 million at June 30, 2010, compared to $476.6 million at December 31, 2009. Loans increased $12.7 million, or 4.0%, during the first six months of 2010. Deposits at June 30, 2010, totaled $405.4 million compared to $384.0 million at December 31, 2009. For the six month period ended June 30, 2010, The First reported net income of $1.4 million compared to $.6 million for the six months ended June 30, 2009.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At June 30, 2010, The First had no concentrations of ten percent or more of total loans in any single industry or any geographical area outside its immediate market areas.

At June 30, 2010, The First had loans past due as follows:

	($ In Thousands)
Past due 30 through 89 days	$ 4,202
Past due 90 days or more and still accruing	288

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 $5.1 million at June 30, 2010, an increase of $.8 million from December 31, 2009. Any other real estate owned is carried at fair value, determined by an appraisal. Other real estate owned totaled $3.8 million at June 30, 2010. 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. At June 30, 2010, the Bank had $3.3 million in commercial loans and $.7 million in consumer loans that were modified as troubled debt restructurings. Of these amounts considered as troubled debt restructurings $.7 million was 1-4 family performing in accordance with the modified terms and $.8 million was commercial loans performing in accordance with modified terms.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is adequate with cash and cash equivalents of $28.5 million as of June 30, 2010. In addition, loans and investment securities repricing or maturing within one year or less exceeded $152.9 million at June 30, 2010. Approximately $37.4 million in loan commitments could fund within the next six months and other commitments, primarily standby letters of credit, totaled $.6 million at June 30, 2010.

There are no known trends or any known commitments or uncertainties that will result in The First’s liquidity increasing or decreasing in a material way.

Total consolidated equity capital at June 30, 2010, was $44.4 million, or approximately 8.9% of total assets. The Company currently has adequate capital positions to meet the minimum capital requirements for all regulatory agencies. The Company's capital ratios as of June 30, 2010, were as follows:

Tier 1 leverage	10.67%
Tier 1 risk-based	14.88%
Total risk-based	16.09%

On June 30, 2006, The Company issued $4,124,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 2 in which the Company owns all of the common equity. The debentures are the sole asset of the Trust. The Trust issued $4,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company in 2011, or earlier in the event the deduction of related interest for federal income taxes is prohibited, treatment as Tier 1 capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2036. Interest on the preferred securities is the three month London Interbank Offer Rate (LIBOR) plus 1.65% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. On July 27, 2007, The Company issued $6,186,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 3 in which the Company owns all of the common equity. The debentures are the sole asset of Trust 3. The Trust issued $6,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company in 2012, or earlier in the event the deduction of related interest for federal income taxes is prohibited, treatment as Tier 1 capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2037. Interest on the preferred securities is the three month LIBOR plus 1.40% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. In accordance with the authoritative guidance, the trusts are not included in the consolidated financial statements.

RESULTS OF OPERATIONS

The Company had a net income of $649,000 for the three months ended June 30, 2010, compared with net income of $181,000 for the same period in 2009.

Net interest income increased to $4,079,000 from $3,522,000 for the three months ended June 30, 2010, or an increase of 15.8% as compared to the same period in 2009. Earning assets through June 30, 2010 remained flat and interest-bearing liabilities increased $11.8 million when compared to June 30, 2009, reflecting an increase of 3.0%.

Noninterest income for the three months ended June 30, 2010, was $986,000 compared to $1,056,000 for the same period in 2009, reflecting a decrease of $70,000, or 6.6%. Included in noninterest income is service charges on deposit accounts, which for the three months ended June 30, 2010, totaled $609,000 compared to $612,000 for the same period in 2009.

The provision for loan losses was $217,000 in the three months ended June 30, 2010 compared with $464,000 for the same period in 2009. The allowance for loan losses of $4.3 million at June 30, 2010 (approximately 1.3% 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 remained flat at $3.9 million for the three months ended June 30, 2010, when compared with the same period in 2009. This reflected an ongoing effort to reduce expenses while maintaining our excellent level of customer service.

ITEM NO. 3. CONTROLS AND PROCEDURES

As of June 30, 2010, (the “Evaluation Date”), we carried out an evaluation, under the supervision of 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. 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 the Exchange Act is recorded, processed, summarized, and reported within the time 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 June 30, 2010, that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM NO. 4. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-06, “Improving Disclosures about Fair Value Measurements” (ASC Subtopic 820-10). This guidance requires additional disclosures concerning transfers into and out of Levels 1 and 2 of the fair value measurement hierarchy and activity in Level 3 measurements. ASU No. 2010-06 also clarifies existing disclosure requirements regarding the level of disaggregation and inputs and valuation techniques. ASU No. 2010-06 is generally effective for reporting periods beginning after December 15, 2009. The Company adopted the guidance in ASU No. 2010-06 for the quarter ended March 31, 2010. Please refer to Note F of these Notes to Consolidated Financial Statements for disclosures related to the Company’s fair value measurements.

On January 1, 2010, ASU No. 2009-16, “Transfers and Servicing, Topic 860: Accounting for Transfers of Financial Assets” became effective. This ASU removed the concept of a qualifying special-purpose entity from generally accepted accounting principles and changed the requirements for derecognizing financial assets. Upon adoption of the ASU, the Company had no change in its balance sheet or required capital since the Company has not used off-balance sheet financing.

In July 2010, the FASB issued ASU No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” This guidance will require companies to provide additional disclosures relating to the credit quality of their financing receivables and the credit reserves held against them, including the aging of past-due receivables, credit quality indicators, and modifications of financing receivables. For public companies, the disclosure requirements as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The disclosure requirements for activity occurring during a reporting period are effective for periods beginning on or after December 15, 2010. The Company is currently evaluating the possible effects of this guidance on its financial statement disclosures.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 8, 2007 The First Bancshares, Inc. (the "Company") and its subsidiary, The First, A National Banking Association (the "Bank") were formally named as defendants and served with a First Amended Complaint in litigation styled Nick D. Welch v. Oak Grove Land Company, Inc., Fred McMurry, David E. Johnson, J. Douglas Seidenburg, The First, a National Banking Association, The First Bancshares, Inc., and John Does 1 through 10, Civil Action No. 2006-236-CV4, pending in the Circuit Court of Jones County, Mississippi, Second Judicial District (the "First Amended Complaint").

The allegations by Welch against the Company and the Bank include counts of 1) Intentional Misrepresentation and Omission; 2) Negligent Misrepresentation and/or Omission; 3) Breach of Fiduciary Duty; 4) Breach of Duty of Good Faith and Fair Dealing; and 5) Civil Conspiracy. The First Amended Complaint served by Welch on October 8, 2007 added the Company and the Bank as defendants in this ongoing litigation. The Plaintiff seeks damages from all the defendants, including $2,957,385.00, annual dividends for the year 2006 in the amount of $.30 per share, punitive damages, and attorneys' fees and costs, and is more fully described in Form 8-K filed by the Company on October 10, 2007. The Company and the Bank both deny any liability to Welch, and they intend to defend vigorously against this lawsuit.

The Defendants removed the case to the United States District Court for the Southern District of Mississippi, Hattiesburg Division, on March 12, 2008 based upon the Court's federal question jurisdiction. On April 11, 2008, the Plaintiff filed a Motion to Remand the case to the Circuit Court of Jones County, Mississippi. The Motion to Remand was granted, and the case is currently pending in the Circuit Court of Jones County, Mississippi, Second Judicial District. The case had been set for trial on June 14, 2010, in the Circuit Court of Jones County, Mississippi but was continued with no new trial set at the present time.

ITEM 1A. RISK FACTORS

There are no material changes in the Company’s risk factors since December 31, 2009. Please refer to the Annual Report on Form 10-K of The First Bancshares, Inc., filed with the Securities and Exchange Commission on March 30, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITY AND USE OF PROCEEDS

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

(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) The Company filed two reports on Form 8-K during the quarter ended June 30, 2010.

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.

	THE FIRST BANCSHARES, INC. (Registrant)
August 13,2010 (Date)	/s/ M. RAY (HOPPY)COLE, JR. M. Ray (Hoppy) Cole, Jr. Chief Executive Officer
August 13, 2010 (Date)	/s/ DEEDEE LOWERY DeeDee Lowery, Executive Vice President and Chief Financial Officer