FIRST BANCSHARES INC /MO/
Form 10-Q
February 17, 2009

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, 2008

[ ] 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 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

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 17, 2009.

FIRST BANCSHARES, INC.
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FORM 10-Q

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

	December 31, 2008	June 30, 2008
ASSETS		
Cash and cash equivalents	$ 17,537,889	$ 17,010,093
Certificates of deposit purchased	477,659	566,800
Securities available-for-sale	48,395,079	40,830,284
Securities held to maturity	3,117,881	4,174,886
Federal Home Loan Bank stock, at cost	1,580,800	1,613,200
Loans receivable, net	148,058,866	167,034,726
Loans held for sale	799,519	755,357
Accrued interest receivable	1,146,381	1,135,894
Prepaid expenses	268,416	243,368
Property and equipment, net	6,829,050	6,913,125
Real estate owned and other repossessed assets	1,892,436	1,205,737
Intangible assets, net	210,412	235,470
Deferred tax asset, net	2,144,543	795,688
Income taxes recoverable	-	57,653
Bank-owned life insurance	6,233,054	6,121,360
Other assets	463,610	538,121
Total assets	$239,155,595	$249,231,762
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$178,835,329	$194,593,283
Retail repurchase agreements	4,786,610	4,647,587
Advances from Federal Home Loan Bank	29,000,000	22,000,000
Accrued expenses	1,451,709	891,320
Total liabilities	214,073,648	222,132,190
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, 2008 and June 30, 2008, 1,550,815 shares outstanding at December 31, 2008 and June 30, 2008	28,950	28,950
Paid-in capital	18,039,782	18,019,852
Retained earnings - substantially restricted	25,298,971	28,214,183
Treasury stock - at cost; 1,344,221 shares	(19,112,627)	(19,112,627)
Accumulated other comprehensive income (loss)	826,871	(50,786)
Total stockholders' equity	25,081,947	27,099,572

Total liabilities and stockholders' equity....	$239,155,595	$249,231,762

See notes to consolidated financial statements

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

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
Interest Income:				
Loans receivable......	$ 2,510,358	$ 3,018,324	$ 5,241,433	$ 5,972,535
Securities...........	686,231	613,642	1,303,631	1,198,715
Other interest-earning assets..............	18,349	175,666	86,994	381,202
Total interest income.............	3,214,938	3,807,632	6,632,058	7,552,452
Interest Expense:				
Deposits.............	1,054,923	1,660,803	2,212,515	3,393,109
Retail repurchase agreements...........	18,668	11,891	45,149	28,671
Borrowed funds........	323,240	323,240	646,479	646,497
Total interest expense............	1,396,831	1,995,934	2,904,143	4,068,277
Net interest income............	1,818,107	1,811,698	3,727,915	3,484,175
Provision for loan losses...............	4,230,100	145,000	4,379,297	152,500
Net interest income (loss) after provision for loan losses.......	(2,411,993)	1,666,698	(651,382)	3,331,675
Non-interest Income:				
Service charges and other fee income.....	498,623	527,454	1,053,397	1,028,403
Gain on sale of loans................	84,937	111,683	190,278	264,612
Gain (loss) on sale of property and equipment and real estate owned................	(13,814)	(24,709)	(15,334)	12,084
Income from bank-owned life insurance.......	58,328	40,462	111,694	93,422
Other.................	45,555	25,782	90,950	66,865
Total non-interest income	673,629	680,672	1,430,985	1,465,386

Non-interest Expense:				
Compensation and employee benefits....	1,107,486	1,043,837	2,236,114	2,180,518
Occupancy and equipment............	397,253	411,466	877,060	805,053
Professional fees.....	146,586	184,569	260,836	331,517
Deposit insurance premiums.............	27,599	27,251	54,319	54,314
Other.................	549,602	480,016	957,394	907,619
Total non-interest expense............	2,228,526	2,147,139	4,385,723	4,279,021
Income (loss) before taxes..............	(3,966,890)	200,231	(3,606,120)	518,040
Income taxes (benefit)............	(962,026)	113,512	(845,995)	205,949
Net income (loss)...	$(3,004,864)	$ 86,719	$(2,760,125)	$ 312,091
Earnings (loss) per share - basic......	$ (1.94)	$ 0.05	$ (1.78)	$ 0.20
Earnings (loss) per share - diluted....	(1.94)	0.05	(1.78)	0.20
Dividends per share..............	0.00	0.00	0.10	0.00

See notes to consolidated financial statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Net Income (loss)......	$(3,004,864)	$ 86,719	$(2,760,125)	$312,091
Other comprehensive income, net of tax:				
Change in unrealized gain on securities available-for-sale, net of deferred income taxes........	776,604	251,879	877,657	424,628
Comprehensive income (loss)...............	$(2,228,260)	$338,598	$(1,882,468)	$736,719

See notes to consolidated financial statements

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

	Six Months Ended December 31, 2008	Six Months Ended December 31, 2007
Cash flows from operating activities:		
Net income (loss)............................	$ (2,760,126)	$ 312,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation................................	330,844	437,036
Amortization................................	25,058	25,057
Premiums and discounts on securities..........	(67,240)	(79,094)
Stock based compensation.....................	19,930	47,350
Provision for loan losses....................	4,379,297	152,500
Provision for losses on real estate owned.....	8,000	20,500
Gain on the sale of loans....................	(190,278)	(264,612)
Proceeds from sales of loans originated for sale.......................................	7,589,369	11,334,488
Loans originated for sale....................	(7,263,752)	(9,820,118)
Deferred income taxes........................	(1,375,018)	(46,122)
(Gain) loss on sale of property and equipment and real estate owned.............	7,970	(31,986)
Loss on the sale of other repossessed assets..	-	1,502
Income from bank-owned life insurance.........	(111,694)	(93,423)
Net change in operating accounts:		
Accrued interest receivable and other assets....................................	(140,525)	(108,599)
Deferred loan costs.........................	44,574	(35,781)
Income taxes recoverable....................	411,127	167,559
Accrued expenses and accounts payable........	(219,049)	300,069
Net cash provided by operating activities..	688,487	2,318,417
Cash flows from investing activities:		
Purchase of securities available-for-sale......	(11,843,470)	(9,602,566)
Proceeds from maturities of securities available-for-sale..........................	5,676,740	5,856,507
Proceeds from maturities of securities held to maturity.................................	1,055,965	3,757,146
Purchase of Federal Home Loan Bank stock.......	(261,500)	-
Proceeds from redemption of Federal Home Loan Bank stock..................................	293,900	600
Net change in certificates of deposit purchased..................................	89,141	90,089
Net change in loans receivable................	13,679,407	(2,494,777)
Purchases of property and equipment...........	(273,643)	(153,280)
Net proceeds from the sale of property and equipment..................................	27,897	287,112
Net proceeds from sale of real estate owned and repossessed assets......................	168,890	128,732
Net cash used (provided) by investing activities..............................	8,613,327	(2,130,437)
Cash flows from financing activities:		
Net change in deposits.......................	(15,757,954)	1,900,474
Net change in retail repurchase agreements.....	139,023	(966,956)

Proceeds from borrowed funds	7,000,000	-
Cash dividends paid	(155,087)	-
Net cash provided (used) by financing activities	(8,774,018)	933,518
Net increase in cash and cash equivalents	527,796	1,121,498
Cash and cash equivalents - beginning of period	17,010,093	21,030,321
Cash and cash equivalents - end of period	$ 17,537,889	$22,151,819
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest on deposits and borrowed funds	$ 2,878,742	$ 4,216,381
Income taxes	-	-
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to real estate acquired in settlement of loans	$ 872,583	$ 512,728

See notes to consolidated financial statements

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, 2008, 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, 2008 . The results for these interim periods may not be indicative of results for the entire year or for any other period.

2. ACCOUNTING DEVELOPMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. However, in February 2008, FASB decided that an entity need not apply this standard to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis until the subsequent year. The adoption of this standard on July 1, 2008 is limited to financial assets and liabilities, and any non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis. See Note 6 of the Notes to Consolidated Financial Statements.

In February 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, which provides all entities, including not-for-profit organizations, with an option to report selected financial assets and liabilities at fair value. The objective of the Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. Certain specified items are eligible for the irrevocable fair value measurement option as established by Statement No. 159. Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company did not elect any fair value options as of July 1, 2008.

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 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, 2008 and 2007.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Basic earnings per common share:				
Numerator:				
Net income (loss)........	$(3,004,864)	$ 86,719	$(2,760,125)	$ 312,091

Denominator:				
Weighted average common shares outstanding......	1,550,815	1,550,815	1,550,815	1,550,815
Basic earnings (loss) per common share..............	$ (1.94)	$ 0.05	$ (1.78)	$ 0.20
Diluted earnings per common share:				
Numerator:				
Net income (loss)........	$(3,004,864)	$ 86,719	$(2,760,125)	$ 312,091
Denominator:				
Weighted average common shares outstanding......	1,550,815	1,550,860	1,550,815	1,550,835
Basic earnings (loss) per common share..............	$ (1.94)	$ 0.05	$ (1.78)	$ 0.20

4. COMMITMENTS

At December 31, 2008 and June 30, 2008, the Company had outstanding commitments to originate loans and fund unused lines of credit totaling $653,000 and $793,000, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets.

5. STOCK OPTION PLAN

Effective July 1, 2006, the Company adopted SFAS No. 123R, Share-based Payments, using the modified prospective transition method. Prior to that date the Company accounted for stock option awards under APB Opinion No. 25, Accounting for Stock Issued to Employees. In accordance with SFAS No. 123R, compensation expense for stock-based awards is recorded over the vesting period at the fair values of the award at the time of the grant. The recording of such compensation began on July 1, 2006 for shares not yet vested as of that date and for all new grants subsequent to that date. 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.

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, 2008 or the six months ended December 31, 2008.

A summary of option activity under the 2004 Stock Option Plan ("Plan") as of December 31, 2008, and changes during the six months ended December 31, 2008, is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
			(in months)
Outstanding at beginning of period......	60,500	$ 16.73	100
Granted................................	-	-	
Exercised..............................	-	-	
Forfeited or expired...................	(37,875)	16.24	
Outstanding at end of period...........	22,625	$ 16.76	97
Exercisable at end of period...........	7,425	$ 16.72	

A summary of the Company's non-vested shares as of December 31, 2008, and changes during the six months ended December 31, 2008, is presented below:

Non-vested Options	Options	Weighted-Average Grant Date Fair Value
Outstanding at beginning of period......	45,075	$ 5.99
Granted................................	-	-
Exercised..............................	-	-
Vested.................................	-	-
Forfeited or expired...................	(29,875)	5.91
Outstanding at end of period...........	15,200	$ 6.16

As of December 31, 2008, there was $23,000 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 13 months.

6. FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements," for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157," the Company will delay application of SFAS 157 for non-financial assets and non-financial liabilities, until July 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS 157 defines fair value 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.

SFAS 157 requires the use of valuation techniques 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. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that 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. Due to the significance of the Level 3 inputs, impaired loans fair values have been classified as Level 3.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2008, 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.....	$ -	$48,395	$ -	$48,395

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, 2008.

The following table summarizes financial assets and financial liabilities measured at fair value on a non-recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total

	Inputs	Inputs	Inputs	Fair Value
	(dollars in thousands)			
Impaired Loans....................	$ -	$ -	$7,330	$7,330

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. As stated above, SFAS 157 will be applicable to these fair value measurements beginning July 1, 2009.

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, 2008, the Company had total assets of $239.2 million, net loans receivable of $148.1 million, total deposits of $178.8 million and stockholders' equity of $25.1 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, 2008, compared to June 30, 2008, and the consolidated results of operations for the three-month and six-month periods ended December 31, 2008, compared to the three-month and six-month periods ended December 31, 2007, respectively. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended June 30, 2008.

Recent Developments and Corporate Overview

Recent events in the U.S. and global financial markets, including the deterioration of the worldwide credit markets, have created significant challenges for financial institutions such as First Home Savings Bank. Dramatic declines in the housing market during the past year, 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.

In response to the crises affecting the U.S. banking system and financial markets and attempt to bolster the distressed economy and improve consumer confidence in the financial system, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the "Stabilization Act"). The Stabilization Act authorizes the Secretary of the U.S. Treasury and the Federal Deposit Insurance Corporation (the "FDIC") to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system. Pursuant to the Stabilization Act, the U.S. Treasury will have the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the U.S. Treasury announced that it will purchase equity stakes in eligible financial institutions that wish to participate. This program, known as the Capital Purchase Program, allocates $250 billion from the $700 billion authorized by the Stabilization Act to the U.S. Treasury for the purchase of senior preferred shares from qualifying financial institutions. Eligible institutions will be able to sell equity interests to the U.S. Treasury in amounts equal to between 1% and 3% of the institution's risk-weighted assets. In conjunction with the purchase of preferred stock, the U.S. Treasury will receive warrants to purchase common stock from the participating institutions with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the Capital Purchase Program. Many financial institutions have already announced that they will participate in the Capital Purchase Program. We have not applied to participate in the Capital Purchase Program.

Also on October 14, 2008, using the systemic risk exception to the FDIC Improvement Act of 1991, the U.S. Treasury authorized the FDIC to provide a 100% guarantee of newly-issued senior unsecured debt and deposits in non-interest bearing accounts at FDIC insured institutions. Initially, all eligible financial institutions will automatically be covered under this program, known as the Temporary Liquidity Guarantee Program, without incurring any fees for a period of 30 days. Coverage under the Temporary Liquidity Guarantee Program after the initial 30-day period is available to insured financial institutions at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing deposits. After the initial 30-day period, institutions will continue to be covered under the Temporary Liquidity Guarantee Program unless they inform the FDIC that they have decided to opt out of the program. We have determined that we will participate in the insurance program covering the non-interest bearing deposits. Neither the Company nor the Bank has unsecured senior debt.

Under the Troubled Asset Auction Program, another initiative based on the authority granted by the Stabilization Act, the U.S. Treasury, through a newly-created Office of Financial Stability, will purchase certain troubled mortgage-related assets from financial institutions in a reverse-auction format. Troubled assets eligible for purchase by the Office of Financial Stability include residential and commercial mortgages originated on or before March 14, 2008, securities or obligations that are based on such mortgages, and any other financial instrument that the Secretary of the U.S. Treasury determines, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, is necessary to promote financial market stability. The U.S. Treasury has not issued any definitive guidance regarding this program and we have not determined whether or not we will participate.

Under the Stabilization Act, the U.S. Treasury is also required to establish a program that will guarantee principal of, and interest on, troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities. The program may take any form and may vary by asset class, but it must be voluntary and self-funding. The U.S. Treasury has the authority to set premiums to reflect the credit risk characteristics of the insured assets. The U.S. Treasury has solicited requests for comments on how the program should be structured but no program has been implemented to date. The Stabilization Act also temporarily increases the amount of insurance coverage of deposit accounts held at FDIC-insured depository institutions, including First Home Savings Bank, from $100,000 to $250,000. The increased coverage is effective during the period from October 3, 2008 until December 31, 2009.

It is not clear at this time what impact the Stabilization Act, the Capital Purchase Program, the Temporary Liquidity Guarantee Program, the Troubled Asset Auction Program, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on our future financial condition and results of operations.

On February 10, 2009, the Treasury Department announced a Financial Stability Plan to address the credit crisis. The purpose of the Plan is to stabilize the financial system and restore confidence in the markets and encompasses the following six key elements: a Financial Stability Trust, (ii) a Public-Private Investment Fund, (iii) Consumer & Business Lending Initiative, (iv) Increased Transparency, Accountability, Monitoring and Conditions, (v) Housing Support and Foreclosure Prevention, and (vi) Small Business and Community Lending Initiative. The details of the Plan are still being established and it is uncertain how the Plan will effect the Company's operations going forward.

The preceding is a summary of recently enacted laws and regulations that could materially impact our results of operations or financial condition. This discussion is qualified in its entirety by reference to such laws and regulations and should be read in conjunction with "Regulation of First Home" discussion contained in our 2008 Annual Report on Form 10-K.

The Bank continues to operate under a Memorandum of Understanding (the "MOU") with the Office of Thrift Supervision (the "OTS"). The MOU was entered into during the December 31, 2006 quarter. The MOU resulted from issues noted during the examination of the Bank conducted by the OTS, the report on which was dated in

July 2006, and included deficiencies in lending policies and procedures, recent operating losses, and the need to revise both the business plan and the budget to enhance profitability. The corrective actions required to be taken by the Bank under the MOU include, among others: (1) developing procedures concerning ongoing credit administration and monitoring; (2) continuing to identify, track and correct credit and collateral documentation exceptions and loan policy exceptions; (3) preparing and submitting to the Bank's Board of Directors an accurate and complete loan-to-one borrower report; (4) preparing and updating, where appropriate, a workout plan for each classified asset over $250,000; (5) adopting a revised loan loss allowance policy; (6) amending the Bank's appraisal policy to require written review of all appraisals prior to final loan approval; (7) adopting a revised loan policy that provides for underwriting guidelines, loan documentation, and credit administration procedures for unsecured loans; (8) either request the consent of the FDIC for the Bank's subsidiary, FYBAR Service Corporation, to hold real estate for investment or approve a plan for divestiture of such investment by June 30, 2007; (9) implementing corrective actions with respect to the previously conducted independent information technology audit; and (10) preparing, adopting and submitting to the OTS a comprehensive three year business plan and budget. The Company believes that the Bank has satisfactorily addressed all of the issues raised by the MOU. During July 2007, the OTS performed an on-site review of the progress made on resolving the issues discussed in the MOU. The Bank did not receive a formal report from the OTS on the results of this review.

Since the end of fiscal 2008, the Company and the Bank have had changes in senior management. On September 23, 2008, as was noted in the Company's Annual Report to the SEC on Form 10-K, filed on September 26, 2008, Adrian C. Rushing, the Bank's Chief Operating Officer, resigned his position to pursue another opportunity. The Bank reviewed the position description for the Chief Operating Officer, and decided to reassign several functions and responsibilities to other officers. The position of Operations Manager was created to manage the remaining functions and responsibilities. The position was filled from within the Bank in November 2008.

On October 28, 2008, Daniel P. Katzfey, President and Chief Executive Officer of both the Company and the Bank, and a director of both the Company and the Bank, resigned his positions.

The Company appointed Thomas M. Sutherland, Chairman of the Company's and Bank's Boards of Directors, to serve as the Interim Chief Executive Officer of the Company and the Bank. Mr. Sutherland has served as Chairman of the Board of the Company's and Bank's Boards of Directors since 2005. In addition, the Company appointed Lannie E. Crawford, a Senior Vice President of the Bank, to serve as Interim President of the Company and the Bank. Mr. Crawford joined the Bank in November 2007 and has more than 30 years of experience with financial institutions. The interim appointments of Mr. Sutherland as Chief Executive Officer of the Company and the Bank, and of Mr. Crawford as President of the Company and the Bank, were made permanent at the organizational meeting of the board of the Company and a special board meeting of the Bank on November 6, 2008.

R.J. Breidenthal had been selected to fill the vacancy created on the Boards of Directors of Company and the Bank by Mr. Katzfey's resignation. Mr. Breidenthal has served as an advisory director of the Company and the Bank since December 2006. Mr. Breidenthal serves on the Bank's Loan Committee. 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.

During the months of November and December 2008, in light of a continually worsening economy and the departure of several loan officers, the Bank conducted an in depth review and analysis of its loan portfolio primarily focusing on commercial real estate loans, multi-family real estate loans, development loans and commercial business loans. As a result of this review, the Bank added 65 loans with principal balances totaling $12.6 million to either the classified asset list or the internal watch list. Additionally, 33 loans which had appeared on either the classified asset list or the internal watch list at the end of November were downgraded. During the quarter ended December 31, 2008, based on the loan analysis and in light of the economic conditions, the Bank recorded a provision for loan losses of $4.4 million.

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. This decision resulted in an additional tax provision of $562,000. However, the benefits from the transaction in the form of additional liquidity provided by the proceeds, the elimination of a non-cash flowing asset and a reduction in the Company's exposure to the increased risk that has been a significant factor in the marketplace over the last several months, more than offset the cost.

Financial Condition

As of December 31, 2008, First Bancshares, Inc. had assets of $239.2 million, compared to $249.2 million at June 30. 2008. The decrease in total assets of $10.0 million, or 4.0%, was the result of a decrease of $18.9 million in loans receivable, net. This decrease was partially offset by increases in investments, real estate owned, cash and cash equivalents and deferred tax assets, which totaled $6.5 million, $687,000, $528,000, and $1.3 million, respectively. Deposits decreased $15.8 million and Federal Home Loan Bank of Des Moines advances increased by $7.0 million. At December 31, 2008, there was a total of $800,000 in loans originated for sale which were not yet funded by the purchasers. The decrease in deposits was partially offset by an increase of $139,000 in retail repurchase agreements.

Loans receivable, net totaled $148.1 million at December 31, 2008, a decrease of $19.0 million, or 11.4%, from $167.0 million at June 30. 2008. The decrease in loans is, in part, the result of decreased originations because of the current uncertainty in the economy, both local and national, brought about by problems in the sub-prime mortgage market. These problems have affected many sectors of the economy and 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 few months. The decrease in loans, net is also due in part to the large increase in the allowance for loan losses during the six months ended December 31, 2008.

The Company's deposits decreased by $15.8 million, or 8.1%, from $194.6 million as of June 30, 2008 to $178.8 million as of December 31, 2008. 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 due to loss of employment. The balance of the Company's retail repurchase agreements, first introduced during fiscal 2007, increased by $139,000, or 3.0%, from $4.6 million at June 30, 2008 to $4.8 million at December 31, 2008.

As of December 31, 2008 the Company's stockholders' equity totaled $25.1 million, compared to $27.1 million as of June 30, 2008. The decrease of $2.0 million was due to the net loss of $2.8 million during the first six months of the fiscal year which was partially offset by a positive change in the mark-to-market adjustment, net of taxes, of $878,000 on the Company's available for sale securities portfolio. In addition, there was a $20,000 increase resulting from the accounting treatment of stock based compensation. There was a dividend of $0.10 per share on common stock, which totaled $155,000, paid during the period. The Company's previously announced stock repurchase program expired on December 31, 2008. No shares of common stock were purchased under the program.

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 $3.9 million, or 1.6% of total assets, at June 30, 2008 to $8.1 million, or 3.4% of total assets at December 31, 2008. 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 $3.7 million in non-accrual loans and an increase of $687,000 in real estate owned and other repossessed assets. These increases were partially offset by a decrease of $527,000 in loans 90 days or more delinquent and still accruing interest, The increase in non-accrual loans consisted of increases of $925,000 in non-accrual residential mortgages, $2.9 million in non-accrual land loans, $95,000 in non-accrual second mortgages, $827,000 in non-accrual commercial business loans and $42,000 in non-accrual consumer loans. These increases were partially offset by a decrease of $1.2 million in non-accrual commercial real estate loans. There were three loans totaling $360,000 past due 90 days or more and still accruing interest at June 30, 2008. All three became non-accrual loans during the six months ended December 31, 2008. At December 31, 2008, loans 90 days past due and still accruing consisted of one residential mortgage loan of $160,000 and one commercial business loan of $50,000. Almost all of the loans that were moved to non-accrual or became 90 days or more delinquent and still accruing as of December 31, 2008, were loans that had been on the Company's list of watch credits at June 30, 2008, September 30, 2008 or both. The increase in non-performing assets is a result of two factors. First was the current economic crisis which has had an adverse impact on individuals and businesses in the Company's primary market areas. Secondly, there were issues with 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 Board Loan Committee. As discussed below, management believes the allowance for loan losses as of December 31, 2008, was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date.

As of June 30, 2008, there were twelve foreclosed properties held for sale totaling $1.2 million. During the six months ended December 31, 2008 five properties with a book value of $178,000 were sold resulting in a net loss of

$9,000. In addition, during the six month period there was an $8,000 provision for loss on real estate owned. Ten properties totaling $814,000 were foreclosed and added to real estate owned. Real estate owned also increased as the result of $59,000 in costs needed to complete construction on one property. At December 31, 2008, there were seventeen foreclosed properties held for sale totaling $1.9 million.

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, 2008, the Company had classified $9.4 million of its assets as substandard, $1.4 million as doubtful and $1.5 million as loss. This compares to classifications at June 30, 2008 of $5.1 million substandard, $718,000 doubtful and none as loss. The increase in classified loans to $12.3 million at December 31, 2008 from $5.8 million at June 30, 2008 was the result of an in depth review and analysis of the Bank's loan portfolio brought about by a continually worsening economy, a change in management and the departure of several loan officers. The review focused primarily on commercial real estate loans, multi-family real estate loans, development loans and commercial business loans. As a result of this review, the Bank added 65 loans with principal balances totaling $12.6 million to either the classified asset list or the internal watch list. Additionally, 33 loans which had appeared on either the classified asset list or the internal watch list at November 30, 2008 were downgraded. During the quarter ended December 31, 2008, the Bank recorded a provision for loan losses of $4.2 million. The $4.2 million provision for loan losses included $3.2 million on 19 loans totaling $5.3 million made to six individuals or related parties. The largest provision was for $1.4 million on a $2.8 million subdivision development loan, brought about by cost overruns, diminishing collateral value and the weakening economic climate. The second largest provision was $667,000 on seven loans totaling $842,000 collateralized primarily by business assets and, to a lesser degree, by real estate, to related entities. The business is not generating sufficient cash flow to service its debt and the value of the business

assets has significantly deteriorated. The next largest provision was $371,000 on three loans totaling $520,000 collateralized primarily by business assets of a company involved in the building trades. The business, and the value of the collateral, has deteriorated in the current economic climate, resulting in insufficient cash flows to meet debt service. In addition, classified assets at December 31, 2008 and June 30, 2008 included real estate owned and other repossessed assets of $1.9 million and $1.2 million, respectively. In addition to the classified loans, the Bank has identified an additional $11.2 million of credits at December 31, 2008 on its internal watch list compared to $4.8 million at June 30, 2008. Management has identified these loans as high risk credits and any deterioration in their financial condition could increase the classified loan totals. The increase in 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. During the six months ended December 31, 2008, thirty-four loans totaling $4.3 million were removed from the watch list as a result the resolution of the reasons they were on the watch list.

Allowance for loan losses. The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets and 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, 2008, the Company has established an allowance for loan losses of $6.5 million compared to $2.8 million at June 30, 2008. The allowance represents approximately 105.3% and 103.9% of the total non-performing loans at December 31, 2008 and June 30, 2008, 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, 2008 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.

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 both December 31, 2008 and June 30, 2008 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses.

Results of Operations for the Three Months Ended December 31, 2008 Compared to the Three Months Ended December 31, 2007

General. For the three months ended December 31, 2008, the Company reported a net loss of $3.0 million, or $(1.94) per diluted share, compared to net income of $87,000, or $0.05 per diluted share, for the same period in 2007. The decrease in net income for the 2008 period included a substantial increase in the provision for loan losses, an increase in non-interest expense and decreases in interest income and non-interest income. These items were partially offset by decreases in interest expense and in the income tax expense.

Net interest income. The Company's net interest income for both the three months ended December 31, 2008 and the three months ended December 31, 2007 was $1.8 million, with net interest income for the 2008 period being $6,000 higher. The increase reflects a $599,000 decrease in interest expense partially offset by a $593,000 decrease in interest income.

Interest income. Interest income for the three months ended December 31, 2008 decreased $593,000, or 15.6%, to $3.2 million compared to $3.8 million for the same period in 2007. Interest income from loans decreased $508,000 to $2.5 million from $3.0 million in 2007. This was attributable to a decrease in the yield on loans to 6.45% during the three months ended December 31, 2008 from 7.58% during the comparable period in 2007, and by a decrease in average outstanding loans to $154.4 million during the 2008 period from $158.1 million during the comparable 2007 period. The decrease in yield was the result of the dramatic downward trend in interest rates between periods.

Interest income from investment securities and other interest-earning assets for the three months ended December 31, 2008 decreased $84,000 to $705,000 from $789,000 for the same period in 2007. The decrease was the result of a decrease in the average balance of these assets of $800,000 to $64.7 million for the quarter ended December 31, 2008 from $65.5 million for the same period in 2007, and to a decrease in the yield on these assets to 4.32% for the 2008 period from 4.78% for the 2007 period.

Interest expense. Interest expense for the three months ended December 31, 2008 decreased $599,000 or 30.0%, to $1.4 million from $2.0 million for the same period in 2007. Interest expense on deposits decreased $606,000 to $1.1 million in the three months ended December 31, 2008 from $1.7 million in the same period in 2007. The decrease resulted from a decrease in average interest-bearing deposit balances of $10.3 million to $171.0 million in the 2008 period from $181.3 million in the 2007 period. The decrease was also attributable to a decrease in the average cost of deposits to 2.45% in the 2008 period from 3.63% in the 2007 period. Interest expense on other interest-bearing liabilities increased $7,000 to $342,000 in the three months ended December 31, 2008 from $335,000 in the comparable period in 2007. The increase in interest expense on other interest-bearing liabilities was due to an increase in the average outstanding balances of other interest-bearing liabilities to $28.4 million during the 2008 period from $23.6 million during the 2007 period which was partially offset by a decrease in the average cost of other interest-bearing liabilities to 4.77% during the 2008 quarter from 5.34% during the 2007 quarter.

Net interest margin. Net interest margin increased to 3.29% for the three months ended December 31, 2008 from 3.22% for the three months ended December 31, 2007.

Provision for loan loss. During the quarter ended December 31, 2008, the provision for loan losses was $4.2 million, compared to $145,000 for the quarter ended December 31. 2007. 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, 2008, non-interest income totaled $674,000, compared to $681,000 for the three months ended December 31, 2007. The $7,000 decrease between the two periods resulted primarily from decreases in service charges and other fee income and profit on the sale of loans, which were $29,000 and $27,000, respectively. These decreases were partially offset by increases of $11,000, $18,000 and $20,000 in gain on the sale of property and equipment and real estate owned, income from bank-owned life insurance and other non-interest income, respectively.

Non-interest expense. Non-interest expense totaled $2.2 million for both the three months ended December 31, 2008 compared to $2.1 million for the three months ended December 31, 2007, an increase of $81,000. This was the result of increases of $64,000 and $70,000 in compensation and benefits and other non-interest expense, respectively. These increases were partially offset by decreases of $14,000 in occupancy and equipment and $38,000 in professional fees. The increase in compensation and benefits was the result of increases in directors' fees and health insurance costs, as well as, normal increases in salary and payroll taxes. The decrease in professional fees was due to the timing of the internal audit work performed during the prior year period compared to the current year.

Income tax expense. During the quarter ended December 31, 2008, an income tax benefit of $962,000 was recorded, compared to income tax expense of $114,000 for the quarter ended December 31, 2007. The pre-tax loss of $4.0 million during the 2008 quarter 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.

Results of Operations for the Six Months Ended December 31, 2008 Compared to the Six Months Ended December 31, 2007

General. For the six months ended December 31, 2008, the Company reported a net loss of $2.8 million, or $(1.78) per diluted share, compared to net income of $312,000, or $0.20 per diluted share, for the same period in 2007. The decrease in net income for the 2008 period included a decrease in non-interest income, an increase in non-interest expense and a substantial increase in the provision for loan losses, which were partially offset by an increase in net interest income and a decrease in and income taxes.

Net interest income. The Company's net interest income for the six months ended December 31, 2008 increased by $244,000 to $3.7 million, compared to $3.5 million for the same period in 2007. The increase reflects a $1.2 million decrease in interest expense which was partially offset by a $920,000 decrease in interest income.

Interest income. Interest income for the six months ended December 31, 2008 decreased $920,000, or 12.2%, to $6.6 million compared to $7.6 million for the same period in 2007. Interest income from loans decreased $731,000 to $5.2 million from $6.0 million in 2007. This was attributable to a decrease in the yield on loans to 6.57% during the 2008 period from 7.51% during the comparable 2007 period, which was partially offset by a small increase in average loan balances to $158.2 million in the 2008 period from $157.8 million during the 2007 period.

Interest income from investment securities and other interest-earning assets for the six months ended December 31, 2008 decreased $188,000 to $1.4 million from $1.6 million for the same period in 2007. The decrease was the result of a decrease in the average balance of these assets of $188,000 to $64.0 million for the six months ended

December 31, 2008 from $64.9 million for the same period in 2007 and a decrease in the yield on these assets to 4.25% for the 2008 period from 4.83% for the 2007 period.

Interest expense. Interest expense for the six months ended December 31, 2008 decreased $1.2 million, or 28.6%, to $2.9 million from $4.1 million for the same period in 2007. Interest expense on deposits decreased $1.2 million to $2.2 million in the six months ended December 31, 2008 from $3.4 million in the same period in 2007. The decrease resulted from a decrease in average interest-bearing deposit balances of $5.7 million to $174.8 million in the 2008 period from $180.5 million in the 2007 period and to a decrease in the average cost of deposits to 2.51% in the 2008 period from 3.73% in the 2007 period. Interest expense on other interest-bearing liabilities increased $16,000 to $691,000 in the six months ended December 31, 2008 from $675,000 in the comparable period in 2007. The increase in interest expense on other interest-bearing liabilities was due to an increase in the average outstanding balances of other interest-bearing liabilities to $27.5 million during the 2008 period from $23.8 million during the 2007 period, which was partially offset by a decrease in the average cost on other interest-bearing liabilities to 4.98% during the 2008 period from 5.63% during the 2007 period.

Net interest margin. Net interest margin increased to 3.33% for the six months ended December 31, 2008 from 3.10% for the six months ended December 31, 2007.

Provision for loan loss. During the six months ended December 31, 2008, the provision for loan losses was $4.4 million, compared to $153,000 for the six months ended December 31. 2007. 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, 2008, non-interest income totaled $1.4 million, compared to $1.5 million for the six months ended December 31, 2007. The $34,000 decrease between the two periods resulted primarily from decreases of $74,000 and $27,000 in profit on the sale of loans and gain on the sale of property and equipment and real estate owned, respectively. These decreases were partially offset by an increase in service charges and fee income of $25,000, income from Bank Owned Life Insurance of $18,000 and other non-interest income of $24,000.

Non-interest expense. Non-interest expense totaled $4.4 million for the six months ended December 31, 2008, compared to $4.3 million for the six months ended December 31, 2007, increasing by $107,000. This was the result of increases of $56,000, $72,000 and $50,000 in compensation and benefits, occupancy and equipment, and other non-interest expense, respectively. These increases were partially offset by a decrease of $71,000 in professional fees. The increase in compensation and benefits was the result of increases in directors' fees and health insurance costs, as well as, normal increases in salary and payroll taxes. The increase in occupancy and equipment expense is primarily the result of an ongoing effort to upgrade the appearance and functionality of the Company's home office and branch offices. While a significant portion of costs related to these efforts has been capital in nature, a lesser portion has been for repairs and maintenance, and has been expensed. Most of these expense were incurred in the first three months of the six month period. The decrease in professional fees was due to the timing of the internal audit work performed during the prior year period compared to the current year.

Income tax expense. During the six months ended December 31, 2008, an income tax benefit of $846,000 was recorded, compared to income tax expense of $206,000 for the quarter ended December 31, 2007. 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, 2008, the Company had commitments to originate loans and fund unused lines of credit totaling $653,000. 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, 2008 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, 2008	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Tangible Capital (to adjusted total assets)............	$21,707	9.23%	$3,526	1.50%	-	-
Tier 1 (Core) Capital (to adjusted total assets)............	21,707	9.23	9,403	4.00	$11,752	5.00%
Total Risk Based Capital (to risk weighted assets)...	23,579	15.56	12,121	8.00	15,152	10.00

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. At December 31, 2008, First Home Savings Bank exceeded minimum requirements for the well-capitalized category.

Forward Looking Statements

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

These forward-looking statements include statements with respect to the Company's beliefs, expectations, estimates and intentions that are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company's control. Such statements may address: future operating results; customer growth and retention; loan and other product demand; earnings growth and expectations; new products and services; credit quality and adequacy of reserves;

technology; and our employees. The following factors, among others, could cause the Company's financial performance to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: the strength of the

United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; inflation, interest rate, market, and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users; the impact of changes in financial services' laws and regulations; technological changes; acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing its "litigation", improving its loan underwriting and related lending policies and procedures, collecting assets of borrowers in default, successfully resolving the MOU and managing the risks involved in the foregoing.

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

Item 4.   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 2008 the Company's disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by the Company in this Report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by the Company in the reports that its files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

During the quarter ended December 31, 2008, 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, 2008 annual report on Form 10K.

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, 2008 was held on November 6, 2008 at the Days Inn located at 300 East 19th Street, Mountain Grove, Missouri. The results of the vote on items presented at the meeting are as follows:

The stockholders elected the following nominees to the Board of Directors for a three-year term ending in 2011 by the following vote:

	Number of Votes For	Number of Votes Percentage	Withheld	Percentage
Thomas M. Sutherland.......	1,104,198	97.1%	32,551	2.9%
D. Mitch Ashlock...........	1,111,359	97.8%	25,390	2.2%

The following directors, whose terms did not expire in 2008, and were not up for re-election at the Annual Meeting of Stockholders, continue to serve as directors: Billy E. Hixon, Harold F. Glass, John G. Moody, and Robert J. Breidenthal.

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

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

FIRST BANCSHARES, INC.

Date: February 17, 2009 By: /s/ Thomas M. Sutherland

Thomas M. Sutherland,
Chief Executive Officer

Date: February 17, 2009 By: /s/ Ronald J. Walters

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

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
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