FIRST BANCSHARES INC /MO/
Form 10QSB/A
May 30, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ending March 31, 2003

or

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

For the transition period from ___________________ to ____________________

Commission File Number___________0-22842_________

First Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Missouri	43-1654695
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
142 East First St., Mountain Grove, MO	65711
(Address of principal executive offices)	(Zip Code)

(417) 926-5151

(Registrant'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 twelve 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______

As of May 2, 2003, there were 1,624,305 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

FORM 10-QSB

March 31, 2003

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

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		(Unaudited) March 31, 2003		June 30, 2002
		(Dollars in thousands)		
ASSETS				
Cash and cash equivalents, including interest-bearing accounts of $30,654 at March 31 and $16,336 at June 30	$	33,658	$	20,461

Certificates of deposit		1,810		1,010
Investment securities available-for-sale, at fair value		19,942		30,593
Investment securities held-to-maturity (estimated fair value $13,542 at March 31 and $1,616 at June 30)		13,750		1,570
Investment in Federal Home Loan Bank stock , at cost		1,901		1,901
Mortgage-backed certificates available-for-sale, at fair value		3,226		2,759
Mortgage-backed certificates held-to-maturity (estimated fair value $2,605 at March 31)		2,586		0
Loans receivable held-for-investment, net (includes reserves for loan losses of $1,007 at March 31 and $881 at June 30)		178,612		188,951
Accrued interest receivable		1,837		1,750
Prepaid expenses		240		90
Property and equipment, less accumulated depreciation and valuation reserves		8,241		8,105
Intangible assets, less accumulated amortization		566		614
Real estate owned		388		399
Prepaid income taxes		0		17
Other assets		20		22
Total assets	**$**	**266,777**	**$**	**258,242**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Customer deposits	$	209,927	$	202,450
Advances from Federal Home Loan Bank		29,367		29,779
Other borrowed funds		-		253
Accrued expenses and accounts payable		884		853
Income taxes payable		443		0
Deferred income taxes		114		144
Total liabilities		**240,735**		**233,479**
Commitments and contingencies		-		-
Preferred stock, $.01 par value; 2,000,000 shares authorized, none issued		-		-
Common stock, $.01 par value; 8,000,000 shares authorized, 2,832,976 and 2,807,276 issued at March 31 and June 30, respectively, 1,632,445 and 1,654,744 outstanding at March 31 and June 30, respectively		28		28
Paid-in capital		17,407		17,229
Retained earnings - substantially restricted		24,632		22,992
Treasury stock - at cost; 1,200,531 and 1,152,532 shares at March 31 and June 30, respectively		(16,229)		(15,614)

Accumulated other comprehensive income		204		128
Total stockholders' equity		**26,042**		**24,763**
Total liabilities and stockholders' equity	**$**	**266,777**	**$**	**258,242**

See accompanying notes to Consolidated Financial Statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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	(Unaudited) Quarter Ended March 31,		(Unaudited) Nine Months Ended March 31,	
	2003	**2002**	**2003**	**2002**
	(Dollars in thousands)			
Interest Income:				
Loans receivable	$ 3,335	$ 3,639	$ 10,522	$ 11,332
Investment securities	325	129	1,028	307
Mortgage-backed and related securities	47	11	111	29
Other interest-earning assets	65	133	169	342
Total interest income	**3,772**	**3,912**	**11,830**	**12,010**
Interest Expense:				
Customer deposits	1,294	1,735	4,223	5,300
Borrowed funds	410	444	1,262	1,370
Total interest expense	**1,704**	**2,179**	**5,485**	**6,670**
Net interest income	2,068	1,733	6,345	5,340
Provision for loan losses	75	91	265	223
Net interest income after provisions for losses	**1,993**	**1,642**	**6,080**	**5,117**
Noninterest Income:				
Service charges and other fee income	430	228	1,128	690

Income from real estate operations		25		16		79		71
Insurance commissions		31		46		89		154
Gain on investments		-		-		8		-
Gain (loss) on sale of property and equipment and real estate owned		(26)		2		(7)		27
Other		31		22		63		43
Total noninterest income		**491**		**314**		**1,360**		**985**
Noninterest Expense:								
Compensation and employee benefits		892		854		2,653		2,474
Occupancy and equipment		254		202		724		586
Deposit insurance premiums		10		8		26		23
Advertising and promotion		47		25		127		93
Other		392		323		1,117		892
Total noninterest expense		**1,595**		**1,412**		**4,647**		**4,068**
Income before taxes		**889**		**544**		**2,793**		**2,034**
Income Taxes		302		202		960		767
Net income	**$**	**587**	**$**	**342**	**$**	**1,833**	**$**	**1,267**
Earnings per share - basic		.36		.20		1.12		.73
Earnings per share - diluted		.35		.19		1.10		.71
Dividends per share		.04		.04		.12		.12

See accompanying notes to Consolidated Financial Statements.

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FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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Nine months ended March 31, 2003 and 2002

	(Unaudited)	
	2003	2002
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 1,833	$ 1,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	440	364
Amortization	48	5
Premium amortization	114	-
Gain on sale of investments	(8)	-
Gain on sale of property and equipment	-	(27)
Loss on sale of real estate owned	7	5
Loss on loans, net of recoveries	265	223
Release of ESOP shares	-	272
Net change in operating accounts:		
Accrued interest receivable and other assets	(227)	(244)
Deferred loan costs	22	23
Income taxes payable - current	460	257
Deferred income tax payable	(76)	32
Accrued expenses	31	(64)
Net cash from operating activities	**2,909**	**2,113**
Cash flows from investing activities:		
Purchase of investment securities held-to-maturity	(16,205)	(440)
Purchase of investment securities available-for-sale	(1,358)	(8,741)
Proceeds from maturities of investment securities available-for-sale	12,150	500
Proceeds from maturities of investment securities held-to-maturity	3,979	37
Net change in certificates of deposit	(800)	399
Net change in loans receivable	9,552	3,001
Purchase of mortgage-backed certificates	(4,885)	(1,533)
Proceeds from maturities of mortgage-backed certificates	1,753	125
Purchases of property and equipment	(576)	(1,050)
Proceeds from sale of property and equipment	-	55
Proceeds, net of expenses, from sale of real estate owned	496	151
Net cash from/(used in) investing activities	**4,106**	**(7,496)**

See accompanying notes to Consolidated Financial Statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Nine months ended March 31, 2003 and 2002

	(Unaudited)	
	2003	**2002**
	(Dollars in thousands)	
Cash flows from financing activities:		
Net change in demand deposits, savings accounts, and certificates of deposit	$ 7,477	$ 36,547
Proceeds from borrowed funds	320	-
Payments on borrowed funds	(985)	(1,016)
Proceeds from sale of common stock	178	204
Purchase of treasury stock	(615)	(2,223)
Cash dividends paid	(193)	(208)
Net cash from financing activities	**6,182**	**33,304**
Net increase in cash and cash equivalents	13,197	27,921
Cash and cash equivalents - beginning of period	20,461	14,350
Cash and cash equivalents - end of period	**$ 33,658**	**$ 42,271**

See accompanying notes to Consolidated Financial Statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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	(Unaudited) **Quarter Ended March 31,**		(Unaudited) **Nine Months Ended March 31,**	
	2003	**2002**	**2003**	**2002**
	(Dollars in thousands)			
Net income	$ 587	$ 342	$ 1,833	$ 1,267
Unrealized gains/(losses) on securities:				
Gains/(losses) arising during period, net of tax	(42)	(52)	81	(99)
Reclassification adjustment, net of tax	-	-	(5)	-
Other comprehensive income/(loss)	(42)	(52)	76	(99)
Comprehensive income	**$545**	**$ 290**	**$ 1,909**	**$ 1,168**

See accompanying notes to Consolidated Financial Statements.

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FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE A - Basis of Presentation

The consolidated interim financial statements as of March 31, 2003 included in this report have been prepared by the Registrant without audit. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the March 31, 2003 interim financial statements. The results of operations for the periods ended March 31, 2003 and 2002 are not necessarily indicative of the operating results for the full year. The June 30, 2002 Consolidated Statement of Financial Condition presented with the interim financial statements was audited and received an unqualified opinion.

NOTE B - Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or resulted in the issuance of common stock that would share in the earnings of the Company. Dilutive potential common shares are added to weighted average shares used to compute basic earnings per share. The number of shares that would be issued from the exercise of stock options has been reduced by the number of shares that could have been purchased from the proceeds at the average market price of the Company s stock. For the periods presented, unreleased ESOP shares are not considered outstanding for purposes of calculating earnings per share.

	Weighted Average Number of Common Shares	Dilutive Shares Issuable
Quarter ended March 31, 2003	1,635,119	37,644
Quarter ended March 31, 2002	1,710,452	54,459
Nine months ended March 31, 2003	1,636,789	35,314
Nine months ended March 31, 2002	1,742,030	52,066

NOTE C Employee Benefit Plans

During the current quarter, the Company amended its Employee Stock Ownership Plan (ESOP) and changed its name to First Home Savings Bank Employee Stock Ownership and 401(k) Plan. The amended Plan covers all employees that are age 21 or older and have completed six months of service. The plan allows for discretionary contributions of Company stock.

The company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, Accounting for Stock-Based Compensation, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company s employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company s 1993 Stock Option and Incentive Plan has authorized the grant of options to certain officers, employees and directors for up to 304,174 shares of the Company s common stock. All options granted have 10 year terms and vest and become exercisable ratably over 5 years following date of grant.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the company had accounted for its employee stock options under the fair value method of that Statement. The effect of applying the fair value method required by SFAS No. 123 to the Company s stock option awards results in net income and earnings per share that are not materially different from amounts reported in the consolidated statements of income.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of fair value of its employee stock options.

A summary of the Company s stock option activity, and related information follows:

Nine Months Ended

Nine Months Ended

March 31, 2003

March 31, 2002

Weighted

Weighted

Average

Average

Exercise

Exercise

Options

Price

Options

Price

Outstanding

beginning of period

89,760

$

5.55

131,830

$

5.45

Granted

-

-

-

-

Exercised

(25,700)

5.02

(39,270)

5.25

Forfeited

-

-

-

-

Outstanding

end of period

64,060

5.76

92,560

5.54

Exercisable at end

of period

58,060

5.34

84,560

5.13

Exercise prices for options outstanding as of March 31, 2003 ranged from $5.00 to $9.88. The weighted-average remaining contractual life of those options is 1.55 years.

NOTE D - Treasury Stock

First Bancshares, Inc. has completed nine separate stock repurchase programs between March 9, 1994 and March 11, 2002. During those nine programs, a total of 1,076,664 shares of stock were acquired at a combined cost of $14.5 million. On January 30, 2002, a tenth repurchase program of 171,012 shares was initiated. As of May 2, 2003, 134,082 shares had been repurchased at a cost of $1.9 million. Treasury stock is shown at cost for financial statement presentation.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE E - Accounting Changes

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 as of July 1, 2002. The adoption of this standard did not have a material impact on the company.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Statement supercedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business (as previously defined in that Opinion). The Statement also amends ARB No. 51, *Consolidated Financial Statements*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company adopted SFAS No. 144 as of July 1, 2002. The adoption of this standard did not have a material impact on the Company.

In October 2002, the Financial Accounting Standards Board issued SFAS No. 147 *Acquisitions of Certain Financial Institutions.* This Statement provides guidance on the accounting for the acquisition of a financial institution. This Statement eliminates the specialized accounting guidance in paragraph 5 of FASB Statement No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions.* This Statement also amends SFAS No. 144 to include long-term customer-relationship intangible assets. The provisions of this Statement are effective October 1, 2002. The adoption of this standard did not have a material impact on the Company.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123*. This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this Statement are effective for financial statements of fiscal years ending after December 15, 2002. Interim disclosures are required for reports containing condensed financial statements for the periods beginning after December 15, 2002. The Company has elected to continue using the APB Opinion 25 intrinsic value method of accounting for stock-based employee compensation. All required disclosures have been made by the Company.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149, *Amendment of Statement 133 on Derivative Insturments and Hedging Activities.* This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003. Management does not believe the adoption of the Statement will have a material impact on the consolidated financial statements.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities.* This Interpretation of Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements,* addresses consolidation by business enterprises of variable interest entities. Interpretation No. 46 amends ARB No. 51 and establishes standards for determining under what circumstances a so-called variable interest entity should be consolidated with its primary beneficiary, including those to which the usual condition for consolidation does not apply. This Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Management does not believe the adoption of the Interpretation will have a material impact on the consolidated financial statements.

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FIRST BANCSHARES, INC. MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis included herein covers those material changes in liquidity and capital resources that have occurred since June 30, 2002, as well as certain material changes in results of operations during the nine month periods ended March 31, 2003 and 2002.

The following narrative is written with the presumption that the users have read or have access to the Company s 2002 Form 10-KSB, which contains the latest audited financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2002, and for the year then ended. Therefore, only material changes in financial condition and results of operations are discussed herein.

This report contains certain "forward-looking statements." The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protection of such safe harbor with respect to all of such forward-looking statements. These forward-looking statements, which are included in Management's Discussion and Analysis, describe future plans or strategies and include the Company's expectations of future financial results. The words "believe", "expect", "anticipate", "estimate", "project," and similar expressions identify forward-looking statements. The Company's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the Company's market area and the country as a whole, loan delinquency rates and changes in federal and state regulation. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Comparison of the Three Months ended March 31, 2003 to the Three Months Ended

March 31, 2002

Financial Condition. Total assets increased $1.7 million during the quarter to $266.8 million at March 31, 2003. Cash and cash equivalents and certificates of deposit increased $6.4 million and investment securities increased $1.4 million while net loans decreased $6.6 million. Customer deposits increased $1.3 million.

Nonperforming assets increased slightly to $4.4 million, or 1.6% of total assets at March 31, 2003 compared to $4.1 million, or 1.6% of total assets at December 31, 2002.

Net Income. Net income increased $245,000, or 71.6% from $342,000 for the quarter ended March 31, 2002 to $587,000 for the quarter ended March 31, 2003. Net interest income after provision for loan losses increased $351,000. Noninterest income increased by $177,000 while noninterest expense increased by $183,000. Income tax expense increased $100,000.

Net Interest Income. Net interest income was $2,068,000 for the quarter ended March 31, 2003, an increase of $335,000 from $1,733,000 for the quarter ended March 31, 2002. Interest income decreased $140,000 while interest expense decreased $475,000.

FIRST BANCSHARES, INC. MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Interest Income. Interest income decreased $140,000, or 3.6%, from $3,912,000 for the quarter ended March 31, 2002 to $3,772,000 for the quarter ended March 31, 2003. Interest income from loans receivable decreased $304,000 from $3,639,000 for the quarter ended March 31, 2002 to $3,335,000 for the quarter ended March 31, 2003. The decrease was attributable to a decrease in the average yield from 7.69% for the quarter ended March 31, 2002 to 7.31% for the quarter ended March 31, 2003 and by a slight decrease in average loans outstanding.

Interest income from investment securities was $325,000 for the quarter ended March 31, 2003 compared to $129,000 for the quarter ended March 31, 2002. A higher balance in outstanding securities, somewhat offset by a decrease in the average rate earned from 5.09% for the quarter ended March 31, 2002 to 3.66% for the quarter ended March 31, 2003, created the increase. Income from mortgage-backed securities increased $36,000 as additional securities were purchased. However, the rate earned on these securities decreased from 5.22% for the quarter ended March 31, 2002 to 3.37% for the quarter ended March 31, 2003. Income from other interest-earning assets decreased $68,000. A lower balance was maintained in these accounts.

Interest Expense. Interest expense was $1,704,000 for the quarter ended March 31, 2003, a $475,000, or 21.8%, decrease from $2,179,000 for the quarter ended March 31, 2002. Interest expense on customer deposits decreased $441,000. While the average outstanding balance in deposits increased, the average rates paid on those deposits decreased from 3.66% for the quarter ended March 31, 2002 to 2.53% for the quarter ended March 31, 2003. A slightly lower balance in FHLB advances further reduced interest expense by $34,000.

Provision for Loan Losses. Loan loss provisions decreased $16,000 from $91,000 for the quarter ended March 31, 2002 to $75,000 for the quarter ended March 31, 2003. Actual loan losses, net of recoveries, were $36,000 for the quarter ended March 31, 2003 compared to $96,000 for the quarter ended March 31, 2002.

Noninterest Income. Noninterest income increased $177,000, or 56.4% from $314,000 for the quarter ended March 31, 2002 to $491,000 for the quarter ended March 31, 2003. Service charges and other fee income continued to increase by $202,000 largely due to the overdraft protection program that automatically pays overdraft checks up to a certain amount for customers with good credit history with the bank. The normal overdraft check fee is charged for each check paid. Title insurance commissions decreased $15,000 caused by a decrease in title insurance sales activity. Income from real estate operations increased $9,000 and other income increased $9,000 from loans fees and brokerage income.

Gain/(loss) on sale of property and equipment and real estate owned changed from a gain of $2,000 for the quarter ended March 31, 2002 to a loss of $26,000 for the quarter ended March 31, 2003. This was the result of a loss on the sale of a foreclosed property.

Noninterest Expense. Noninterest expense was $1,595,000 for the quarter ended March 31, 2003, an increase of $183,000, or 13.0%, from $1,412,000 for the quarter ended March 31, 2002. Employee compensation increased $38,000 as a result of regular annual salary increases for existing personnel, increased health insurance costs and retirement plan expenses offset by the elimination of the $89,000 in ESOP expense for the quarter ended March 31, 2002.

Occupancy and equipment expense increased $52,000 comprised of increases in depreciation and maintenance expense on the remodeling of the main office and the addition and enhancement of computer equipment.

Advertising and promotion increased $22,000 as a result of increased newpaper advertising.

Other noninterest expense increased $69,000. The main components of the increase were: External and internal auditing expense-$8,000, postage-$7,000, costs of the implementation of the new overdraft procedures-$10,000, loss on checking accounts (not related to the overdraft protection program) of $26,000 and $14,000 in fraudulent check losses.

Net Interest Margin. Net interest margin increased from 2.90% for the three months ended March 31, 2002 to 3.27% for the three months ended March 31, 2003. Income from earning assets decreased $140,000, or 3.6%, between the two quarters while interest expense decreased $475,000, or 21.8%. The average earning asset base increased $14.1 million, or 5.9%, which was offset by a $12.7 million, or 5.8%, increase in the average interest-bearing liability base.

Comparison of the Nine Months ended March 31, 2003 to the Nine Months ended March 31, 2002

Financial Condition. Total assets increased $8.6 million during the nine months ended March 31, 2003 to $266.8 million. Cash and cash equivalents increased $13.2 million, investment securities increased $1.5 million, mortgage-backed certificates increased $3.1 million while net loans decreased $10.3 million. Customer deposits increased $7.4 million.

Nonperforming assets remained basically constant at $4.4 million at March 31, 2003.

Net income. Net income increased $566,000, or 44.7% from $1,267,000 for the nine months ended March 31, 2002 to $1,833,000 for the nine months ended March 31, 2003. Net interest income, after provision for loan losses, increased $963,000, or 18.8%. Noninterest income increased $375,000; however, noninterest expense increased $579,000, or 14.2%. Income taxes increased $193,000.

Net interest income. Net interest income increased $1,005,000 from $5,340,000 for the nine months ended March 31, 2002 to $6,345,000 for the nine months ended March 31, 2003. The increase resulted from a $1,185,000 decrease in interest expense offset by a $180,000 decrease in interest income.

Interest income. Total interest income of $11,830,000 for the nine months ended March 31, 2003 decreased $180,000 from $12,010,000 for the nine months ended March 31, 2002. Interest income from loans receivable decreased $810,000 attributable to a slightly lower outstanding balance combined with a lower average yield. Income from other earning assets decreased $173,000 as a lower balance was maintained in those accounts. Income from investment securities increased $721,000 resulting from a combination of a higher average balance slightly offset by a lower yield on the portfolio. Interest income on mortgage-backed securities increased $82,000 as the portfolio increased.

Interest expense. Interest expense decreased $1,185,000, or 17.8%, from $6,670,000 for the nine months ended March 31, 2002 to $5,485,000 for the nine months ended March 31, 2003. Interest expense on customer deposits decreased $1,077,000, or 20.3 %, attributable to lower rates paid on a higher outstanding balance. Interest expense on FHLB advances decreased $108,000 resulting from a decrease in the outstanding balance of the advances and a slightly lower rate.

Provision for loan losses. Provision for loan losses was $265,000 for the nine months ended March 31, 2003, an increase of $42,000 from $223,000 for the nine months ended March 31, 2002. Actual loan losses, net of recoveries, were $138,000 for the nine months ended March 31, 2003 and $165,000 for the nine months ended March 31, 2002.

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Noninterest income. Noninterest income rose $375,000, or 38.1%, from $985,000 for the nine months ended March 31, 2002 to $1,360,000 for the nine months ended March 31, 2003. The increase included a $438,000, or 63.5% increase in service charges and fee income from the overdraft protection program which began in October 2002. Other income also increased $20,000 from loan fees and brokerage income**.** These increases were offset by a decrease in title insurance commissions of $65,000.

Noninterest expense. Noninterest expense increased $579,000 from $4,068,000 for the nine months ended March 31, 2002 to $4,647,000 for the nine months ended March 31, 2003. Compensation and employee benefits increased $179,000. Annual salary increases, increased group health insurance costs and retirement plan expenses were offset by the elimination of $244,000 in ESOP expenses.

Occupancy and equipment expense increased $138,000 due to the expenses related to the remodeling of the main office and the addition and enhancement of computer equipment.

Advertising and promotion increased $34,000 due to increased newspaper advertising and promotion of the overdraft protection program.

Other noninterest expense increased $225,000. The primary increases in this category were: loss on checking and fraudulent checks - $40,000, external and internal auditing and regulatory fees-$35,000, costs of the implementation of the new overdraft program-$32,000, legal-$32,000, amortization of an intangible-$28,000, postage-$18,000, insurance-$17,000 and office supplies-$14,000.

Net Interest Margin. The net interest margin of 3.17% for the nine months ended March 31, 2002 increased to 3.41% for the nine months ended March 31, 2003. Income from earning assets decreased $180,000, or 1.5%, while interest expense decreased $1,185,000, or 17.8%. The average earning asset base increased $23.4 million, or 10.4%. The average interest-bearing liability base increased $23.9 million, or 11.6%.

Liquidity and Capital Resources

First Home s primary sources of funds are deposits, proceeds from principal and interest payments on loans, mortgage-backed securities, investment securities, Federal Home Loan Bank advances and net operating income. While maturities and scheduled amortization of loans and mortgage-backed securities are a somewhat predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

First Home must maintain an adequate level of liquidity to ensure availability of sufficient funds to support loan growth and deposit withdrawals, satisfy financial commitments and take advantage of investment opportunities. Funds from a Federal Home Loan Bank line of credit can be drawn as an

FIRST BANCSHARES, INC. MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

alternative source of funds. During the period presented, First Home used its sources of funds primarily to fund loan commitments, pay maturing savings certificates and deposit withdrawals and invest in securities and mortgage-backed certificates. At March 31, 2003, First Home had approved loan commitments totaling $0.9 million and undisbursed loans in process of $2.3 million.

Liquid funds necessary for normal daily operations of First Home are maintained in three working checking accounts and a daily time account with the Federal Home Loan Bank of Des Moines. It is the Savings Bank s current policy to maintain adequate collected balances in those three checking accounts to meet daily operating expenses, customer withdrawals, and fund loan demand. Funds received from daily operating activities are deposited, on a daily basis, in one of the working checking accounts and transferred, when appropriate, to daily time or federal funds sold to enhance income or to reduce any outstanding line-of-credit advance from the Federal Home Loan Bank or purchase investment securities.

Normal daily operating expenses are expected to remain steady. Noninterest expense as a percentage of average assets at 2.4% is expected to remain basically constant. Interest expense is expected to basically remain steady to decreasing slightly. While the deposit base is expected to remain constant or increase somewhat and the average interest rates paid on new and renewed accounts is expected to decrease. The balance in outstanding loans is expected to decrease slightly combined with a decrease in the rates earned on new and existing adjustable rate loans.

At March 31, 2003, certificates of deposit amounted to $109.4 million, or 52% of First Home s total deposits, including $46.9 million of fixed rate certificates scheduled to mature within twelve months. Historically, First Home has been able to retain a significant amount of its deposits as they mature. Management believes it has adequate resources to fund all loan commitments from savings deposits, loan payments and Federal Home Loan Bank advances and adjust the offering rates of savings certificates to retain deposits in changing interest rate environments.

FIRST BANCSHARES, INC. MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

The Office of Thrift Supervision requires institutions such as the Savings Bank to meet certain tangible, core, and risk-based capital requirements. Tangible capital generally consists of stockholders' equity minus certain intangible assets. Core capital generally consists of stockholders' equity. The risk-based capital requirements presently address risk related to both recorded assets and off-balance sheet commitments and obligations. The following table summarizes the Savings Bank's capital ratios and the ratios required by FIRREA and subsequent regulations at March 31, 2003.

	Amount	Percent of Adjusted Total Assets
	(Unaudited) (Dollars in thousands)	
Tangible capital	$21,342	8.1%
Tangible capital requirement	3,940	1.5
Excess	**$17,402**	**6.6%**
Core capital	$21,342	8.1%
Core capital requirement	10,574	4.0
Excess	**$10,768**	**4.1%**
Risk-based capital	$21,672	12.9%

Risk-based capital requirement	13,444	8.0
Excess	**$ 8,228**	**4.9%**

FIRST BANCSHARES, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 1, LEGAL PROCEEDINGS

Neither the Registrant nor the Savings Bank is a party to any material legal proceedings at this time. From time to time the Savings Bank is involved in various claims and legal actions arising in the ordinary course of business.

ITEM 2, CHANGES IN SECURITIES

Not applicable.

ITEM 3, DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5, OTHER INFORMATION

None

ITEM 6, EXHIBITS AND REPORT ON FORM 8-K

None.

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SIGNATURES

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

First Bancshares, Inc.

Date: May 14, 2003

By: /s/ Stephen H. Romines

Stephen H. Romines

Chairman, President

CEO

By: /s/ Susan J. Uchtman

Susan J. Uchtman

CFO

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Certification Required

By Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Stephen H. Romines, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of First Bancshares, Inc.;

2.

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.

The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b)

evaluated the effectiveness of the registrant s disclosure controls and procedures as of date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c)

presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:

5.

The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6.

The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 29, 2003

/s/ Stephen H. Romines

Stephen H. Romines

Chairman, President and Chief Executive Officer

Certification Required

By Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Susan J. Uchtman, certify that:

2.

I have reviewed this quarterly report on Form 10-QSB of First Bancshares, Inc.;

2.

Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3.

Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4.

The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a)

designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b)

evaluated the effectiveness of the registrant s disclosure controls and procedures as of date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c)

presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:

5.

The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a)

all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6.

The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 29, 2003

/s/ Susan J. Uchtman

Susan J. Uchtman

Chief Financial Officer

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

OF FIRST BANCSHARES, INC.

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-QSB, that:

1.

the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

2.

the information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

Date: May 29, 2003

/s/ Stephen H. Romines

Stephen H. Romines

Chairman, President and Chief Executive Officer

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CERTIFICATION OF CHIEF FINANCIAL OFFICER

OF FIRST BANCSHARES, INC.

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-QSB, that:

1.

the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

2.

the information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

Date: May 29, 2003

/s/ Susan J. Uchtman

Susan J. Uchtman

Chief Financial Officer

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