FIRST BANCSHARES INC /MO/
Form 10QSB
November 15, 2004

**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 September 30, 2004

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)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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____

State the number of shares outstanding of each of the issuer s classes of common equity as of the latest practicable date:

1,613,033 shares outstanding on November 10, 2004

Transitional Small Business Disclosure Format (check one): Yes___ No X

**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**FORM 10-QSB**

**September 30, 2004**

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## PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

### FIRST BANCSHARES, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

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| | (Unaudited) September 30, 2004 | June 30, 2004 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Cash and cash equivalents, including interest-bearing accounts of $28,158 at September 30 and $27,431 at June 30 | $ 33,654 | $ 32,771 |
| Certificates of deposit | 2,706 | 3,399 |
| Investment securities available-for-sale, at fair value | 7,765 | 8,175 |
| Investment securities held-to-maturity (estimated fair value $26,941 at September 30 and $28,635 at June 30) | 26,897 | 28,816 |
| Investment in Federal Home Loan Bank stock, at cost | 1,904 | 1,904 |
| Mortgage-backed certificates available-for-sale, at fair value | 2,363 | 2,777 |
| Mortgage-backed certificates held-to-maturity (estimated fair value $3,444 at September 30 | 3,553 | 4,130 |

| | | | | |
|---|---|---|---|---|
| and $3,923 at June 30) | | | | |
| Loans receivable held-for-investment, net (includes reserves for loan losses of $1,216 at September 30 and $1,240 at June 30) | | 164,833 | | 166,259 |
| Accrued interest receivable | | 1,618 | | 1,581 |
| Prepaid expenses | | 230 | | 96 |
| Life insurance proceeds receivable | | 1,297 | | - |
| Property and equipment, less accumulated depreciation and valuation reserves | | 8,516 | | 8,404 |
| Intangible assets, less accumulated amortization | | 464 | | 481 |
| Real estate owned | | 471 | | 174 |
| Deferred tax asset, net | | 41 | | 102 |
| Bank-owned life insurance cash surrender value | | 5,330 | | 5,763 |
| Other assets | | 134 | | 146 |
| Total assets | **$** | **261,776** | **$** | **264,978** |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | | | | |
|---|---|---|---|---|
| Customer deposits | $ | 202,834 | $ | 207,247 |
| Advances from Federal Home Loan Bank | | 29,104 | | 29,121 |
| Borrowings | | 305 | | 450 |
| Accrued expenses and accounts payable | | 776 | | 862 |
| Unearned income | | 83 | | - |
| Income taxes payable | | 270 | | 2 |
| Total liabilities | | **233,372** | | **237,682** |
| Commitments and contingencies | | - | | - |
| Preferred stock, $.01 par value; 2,000,000 shares authorized, none issued | | - | | - |
| Common stock, $.01 par value; 8,000,000 shares authorized, 2,891,036 and 2,891,036 issued at September 30 and June 30, respectively, 1,614,048 and 1,627,819 outstanding at September 30 and June 30, respectively | | 29 | | 29 |
| Paid-in capital | | 17,801 | | 17,801 |
| Retained earnings - substantially restricted | | 28,372 | | 27,061 |
| Treasury stock - at cost; 1,276,988 and 1,263,217 shares at September 30 and June 30, respectively | | (17,738) | | (17,461) |
| Accumulated other comprehensive income | | (60) | | (134) |
| Total stockholders' equity | | **28,404** | | **27,296** |
| Total liabilities and stockholders' equity | **$** | **261,776** | **$** | **264,978** |

See accompanying notes to Consolidated Financial Statements.



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**- - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -**

| | (Unaudited) Quarter Ended September 30, | |
|---|---|---|
| | **2004** | **2003** |
| | (In thousands) | |
| Interest Income: | | |
| Loans receivable | $ 2,893 | $ 3,163 |
| Investment securities | 309 | 292 |
| Mortgage-backed and related securities | 53 | 70 |
| Other interest-earning assets | 76 | 36 |
| Total interest income | 3,331 | 3,561 |
| | | |
| Interest Expense: | | |
| Customer deposits | 901 | 1,117 |
| Borrowed funds | 416 | 420 |
| Total interest expense | 1,317 | 1,537 |
| | | |
| Net interest income | 2,014 | 2,024 |
| | | |
| Provision for loan losses | 2 | 135 |
| Net interest income after provision for loan losses | 2,012 | 1,889 |
| | | |
| Noninterest Income: | | |
| Service charges and other fee income | 474 | 440 |
| Gain/(loss) on sale of property and equipment and real estate owned | (10) | (25) |
| Gain on sale of investments | (4) | - |
| Income from real estate operations | 11 | 7 |

| | | |
|---|---|---|
| Insurance commissions | 18 | 35 |
| Income from bank-owned life insurance | 865 | 67 |
| Other | 14 | 34 |
| Total noninterest income | 1,368 | 558 |
| | | |
| Noninterest Expense: | | |
| Compensation and employee benefits | 916 | 867 |
| Occupancy and equipment | 293 | 270 |
| Deposit account processing | 61 | 11 |
| Advertising | 41 | 38 |
| Deposit insurance premiums | 8 | - |
| Other | 402 | 335 |
| Total noninterest expense | 1,721 | 1,521 |
| | | |
| Income before taxes | 1,659 | 926 |
| | | |
| Income Tax Expense | 284 | 307 |
| | | |
| Net income | **$ 1,375** | **$ 619** |
| | | |
| Basic earnings per share | $ 0.85 | $ 0.38 |
| Diluted earnings per share | 0.84 | 0.37 |
| Dividends per share | 0.04 | 0.04 |

See accompanying notes to Consolidated Financial Statements.



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**- - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -**

| | (Unaudited) | |
|---|---|---|
| | **Quarter Ended September 30,** | |
| | **2004** | **2003** |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | $ 1,375 | $ 619 |

| | | |
|---|---|---|
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 168 | 153 |
| Amortization of intangible assets | 17 | 17 |
| Premium amortization | 5 | 71 |
| Increase in cash surrender value | (65) | (67) |
| Income from bank-owned life insurance | (800) | - |
| Loss on sale of investments | 4 | - |
| Loss on sale of real estate owned | 12 | 25 |
| Gain on sale of property and equipment | (2) | - |
| Loss on loans, net of recoveries | 2 | 135 |
| Net change in operating accounts: | | |
| Accrued interest receivable and other assets | (159) | (196) |
| Deferred loan costs | 7 | 8 |
| Income taxes payable current | 268 | 66 |
| Deferred income taxes | 18 | (10) |
| Accrued expenses | (86) | (174) |
| Net cash from operating activities | 764 | 647 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from maturities of investment securities available-for-sale | 498 | 250 |
| Purchase of investment securities held-to-maturity | (205) | (406) |
| Proceeds from maturities of investment securities held-to-maturity | 2,132 | 2,640 |
| Net change in certificates of deposits purchased | 693 | 100 |
| Net change in loans receivable | 1,245 | 4,402 |
| Proceeds from maturities of mortgage-backed securities available-for-sale | 307 | 665 |
| Proceeds from sales of mortgage-backed securities available-for-sale | 125 | - |
| Proceeds from maturities of mortgage-backed securities held-to-maturity | 571 | 1,713 |
| Purchases of property and equipment | (411) | (100) |
| Proceeds from sale of property and equipment | 26 | - |
| Proceeds from principal payments on notes receivable | 18 | - |
| Proceeds from sale of real estate owned | 96 | 128 |
| Net cash from investing activities | 5,095 | 9,392 |

See accompanying notes to Consolidated Financial Statements.



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

- - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -

| | (Unaudited) Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | **2004** | | | **2003** |
| | (In thousands) | | | |
| Cash flows from financing activities: | | | | |
| Net change in demand deposits, savings accounts, and certificates of deposit | $ | (4,413) | $ | 1,563 |
| Proceeds from borrowed funds | | 250 | | - |
| Payments on borrowed funds | | (472) | | (16) |
| Proceeds from sale of common stock | | - | | 54 |
| Purchase of treasury stock | | (277) | | (17) |
| Cash dividends paid | | (64) | | (66) |
| Net cash from (used in) financing activities | | (4,976) | | 1,518 |
| Net increase in cash and cash equivalents | | 883 | | 11,557 |
| Cash and cash equivalents beginning of period | | 32,771 | | 23,313 |
| Cash and cash equivalents - end of period | **$** | **33,654** | **$** | **34,870** |

See accompanying notes to Consolidated Financial Statements.



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

- - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - - -

| | (Unaudited) Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | | **2004** | | **2003** |
| | (In thousands) | | | |
| Net income | $ | 1,375 | $ | 619 |
| Unrealized gains/(losses) on securities: | | | | |
| Gains/(losses) arising during period, net of tax | | 71 | | (136) |
| Reclassification adjustment, net of tax | | 3 | | - |
| Other comprehensive income/(loss) | | 74 | | (136) |
| Comprehensive income | **$** | **1,449** | **$** | **483** |

See accompanying notes to Consolidated Financial Statements.



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

NOTE A - Basis of Presentation

The consolidated interim financial statements as of September 30, 2004 included in this report have been prepared by First Bancshares, Inc. (Company) without audit. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the September 30, 2004 interim financial statements. The results of operations for the periods ended September 30, 2004 and 2003 are not necessarily indicative of the operating results for the full year. The June 30, 2004 Consolidated Statements 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.

| | Weighted Average Number of Common Shares | Dilutive Shares Issuable |
|---|---|---|
| Quarter ended September 30, 2004 | 1,624,936 | 3,258 |
| Quarter ended September 30, 2003 | 1,639,314 | 27,772 |



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

NOTE C Employee Benefit Plans

The Company has elected to follow Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Financial Accounting Standards Board (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 2004 Stock Option and Incentive Plan has authorized the grant of options to certain officers, employees and directors for up to 100,000 shares of the Company s common stock. All options granted have 10 year terms and vest and become exercisable ratably over five years following the date of grant. This was approved by shareholders in October 2004.

The Company s 1993 Stock Option and Incentive Plan 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 had 10 year terms and vest and became exercisable ratably over 5 years following date of grant. This plan expired on December 23, 2003.

Pro forma information regarding net income and earnings per share is required by SFAS 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.



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

Three Months Ended

Three Months Ended

September 30, 2004

September 30, 2003

Weighted

Weighted

Average

Exercise

Exercise

Options

Price

Options

Price

Outstanding

beginning of period

6,000

$

9.17

51,860

$

5.74

Granted

-

-

-

-

Exercised

-

-

(10,600)

5.11

Forfeited

-

-

-

-

Outstanding

end of period

6,000

9.17

41,260

5.91

Exercisable at end

of period

4,000

8.81

37,260

5.48

The following table summarizes information about stock options outstanding at September 30, 2004:

| Exercise Price | Number Outstanding at September 30 | Number Exercisable at September 30 | Remaining Contractual Life (Months) |
|---|---|---|---|
| $ 7.75 | 2,000 | 2,000 | 9 |
| 9.88 | 4,000 | 2,000 | 72 |

6,000

4,000

The weighted-average remaining contractual life of those options is 4.25 years.

NOTE D - Treasury Stock

The Company has completed ten separate stock repurchase programs between March 9, 1994 and May 28, 2004. During those ten programs, a total of 1,247,676 shares of stock were acquired at a combined cost of $17.2 million. On May 28, 2004, an eleventh repurchase program of 164,336 shares was initiated. As of November 9, 2004, 30,327 shares had been repurchased at a cost of $600,000. Treasury stock is shown at cost for financial statement presentation. The following table summarizes the stock repurchase program information for the three months ended September 30, 2004:



**FIRST BANCSHARES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Number of Shares that may yet be Purchased Under the Plan |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| July 2004 | 1,080 | $20.49 | 1,080 | 148,642 |
| August 2004 | 620 | $19.82 | 620 | 148,022 |
| September 2004 | 12,071 | $20.14 | 12,071 | 135,951 |
| Total | **13,771** | $20.15 | **13,771** | 135,951 |

NOTE E - Accounting Changes

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities.* This Interpretation of ARB No. 51, *Consolidated Financial Statements,* addresses consolidation by business enterprises of variable interest entities. Interpretation No. 46 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 was effective immediately for 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 ending after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of this Interpretation did not have a material impact on the Company. In December 2003, the FASB issued FASB Interpretations No. 46 (Revised December 2003) *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN 46R). FIN 46R is an update of FIN 46 and contains different implementation dates based on the types of entities subject to the standard and based on whether a company has adopted FIN 46. The Company does not expect FIN 46R will have a material impact on the Company s results of operations or financial condition.

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NOTE F - Income from Bank Owned Life Insurance

First Home Savings Bank recorded income of approximately $800,000 for bank-owned life insurance proceeds during the quarter ended September 30, 2004. The proceeds are due to the death of an insured covered under polices purchased in June 2003. There will be no tax effect on the income as life insurance proceeds are not taxable according to current regulations. Also, the Bank is receiving a return of cash surrender value of approximately $500,000 on the polices to total the $1.3 million receivable from the insurance companies.

Note G - Sale of Subsidiary

On June 22, 2004, an agreement was entered into to sell the property and equipment of South Central Missouri Title Company, Inc for $252,000. In addition, South Central entered into a covenant not to compete agreement with the purchaser. Expense related to the sale totaled $61,512. As of the date of the sale, the assets sold had a net book value of $100,166. The majority of the sales price is in the form of a promissory note to South Central with a five year maturity. The transaction closed on July 16, 2004. As a result of this sale, the subsidiary will no longer offer sales of title insurance or real estate closing services. The company is accounting for this sale on the installment method. The following schedule summarizes certain information for the transaction:

| | |
|---|---|
| Revenue | $252,000 |
| Cost of Sale | 161,678 |

| | |
|---|---|
| Gross Profit | 90,322 |
| Profit recognized from payments received | 7,261 |
| Gross profit deferred | $83,061 |



**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

The discussion and analysis included herein covers those material changes in liquidity and capital resources that have occurred since June 30, 2004, as well as certain material changes in results of operations during the three month periods ended September 30, 2004 and 2003.

The following narrative is written with the presumption that the users have read or have access to the Company s 2004 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, 2004, 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 September 30, 2004 to the Three Months Ended September 30, 2003**

**Financial Condition.** Total assets decreased $3.2 million during the quarter to $261.8 million at September 30, 2004. A $2.3 million decrease in investment securities, a $1.0 million decrease in mortgage-backed certificates and a $1.4 million decrease in net loans was offset by a $1.3 million increase in life insurance proceeds receivable as discussed in Note F. Customer deposits decreased $4.4 million primarily in certificates of deposits and money market accounts. Stockholders equity increased $1.1 million through net income from the quarter offset by purchases of treasury stock.

Nonperforming assets of $3.8 million, or 1.44% of total assets at September 30, 2004 increased from $3.2 million, or 1.18% of total assets, at June 30, 2004.

**Net Income.** Net income was $1.4 million, an increase of $756,000, or 122.13%, from $619,000 for the quarter ended September 30, 2003. Net interest income after provision for loan losses increased $123,000. During the quarter ended September 30, 2004, noninterest income increased $810,000 to $1.4 million, primarily due to the life insurance proceeds recorded as discussed in Note F. Noninterest expense increased $200,000 to $1.7 million and income tax expense decreased $23,000 to $284,000.

**Net Interest Income.** Net interest income remained basically constant at $2.0 million for the quarters ended September 30, 2004 and 2003, respectively. Interest income decreased $230,000 offset by a $220,000 decrease in interest expense.

**Interest Income.** Interest income decreased $230,000, or 6.46%, from $3.5 million for the quarter ended September 30, 2003 to $3.3 million for the quarter ended September 30, 2004. Interest income from loans receivable decreased $270,000 from $3.2 million for the quarter ended September 30, 2003 to $2.9 million for the quarter ended September 30, 2004. The decrease was attributable to a $9.7 million decrease in average loans outstanding combined with a decrease in the average yield from 7.16% for the quarter ended September 30, 2003 to 6.94% for the quarter ended September 30, 2004. The decrease in average loans was the result of a continuing trend of loan payments and payoffs exceeding loan originations. The decline in long-term rates has caused some of the Savings Bank s customers to seek long-term fixed rate products that First Home does not offer.

Interest income from investment securities was $309,000 for the quarter ended September 30, 2004, an increase of $17,000 from $292,000 for the quarter ended September 30, 2003. The effect of a higher balance in outstanding securities was enhanced by a higher average interest rate. Income from mortgage-backed securities decreased $17,000 to $53,000, which was attributable to a lower balance maintained in those securities. Income from other interest-earning assets increased $40,000 from $36,000 for the quarter ended September 30, 2003 to $76,000 for the quarter ended September 30, 2004. The average rate earned increased from .59% for the quarter ended September 30, 2003 to 1.03% for the quarter ended September 30, 2004.



**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OR PLAN OF OPERATION**

**(continued)**

**Interest Expense.** Interest expense decreased $220,000, or 14.3%, from $1.5 million for the quarter ended September 30, 2003 to $1.3 million for the quarter ended September 30, 2004. Interest expense on customer deposits decreased $216,000 to $901,000. The average rate paid on those deposits decreased from 2.17% for the quarter ended September 30, 2003 to 1.83% for the quarter ended September 30, 2004 combined with a decrease in the average balance outstanding of $8.1 million. A decrease in the average outstanding balance of Federal Home Loan Bank (FHLB) advances created a $4,000 decrease in interest expense.

**Provision for Loan Losses.** Loan loss provisions decreased $133,000, from $135,000 for the quarter ended September 30, 2003 to $2,000 for the quarter ended September 30, 2004. That decrease was attributable to a decrease in actual loans losses and a reduction in classified assets. Actual loan losses, net of recoveries, were $26,000 for the quarter ended September 30, 2004 compared to $131,000 for the quarter ended September 30, 2003.

**Noninterest Income.** Noninterest income increased $810,000, from $558,000 for the quarter ended September 30, 2003 to $1,368,000 for the quarter ended September 30, 2004. The primary contributor to the increase was $800,000 in income from bank-owned life insurance proceeds from the death of an insured covered under policies purchased in June 2003 as discussed in Note F. Service charges and other fee income from transaction accounts increased $34,000 to $474,000. During the quarter ended September 30, 2004, there were net losses totaling $10,000 on the sale of property and equipment and foreclosed real estate compared to $25,000 net losses on the sales or write-downs of foreclosed real estate during the comparable quarter in 2003.

Offsetting the increase in noninterest income during the quarter ended September 30, 2004 was a decrease in insurance commissions of $17,000 as discussed in Note G.

**Noninterest Expense.** Noninterest expense was $1.7 million for the quarter ended September 30, 2004, an increase of $200,000, or 13.15%, from $1.5 million for the quarter ended September 30, 2003. Employee compensation and benefits increased $49,000 to $916,000 as a result of salary increases and defined benefit plan funding offset slightly by decreased group health insurance premiums and self insurance costs. Occupancy and equipment expense increased $23,000 to $293,000 primarily as a result of enhancements to computer software and equipment and prepaid annual maintenance agreements on the addition of ATMs.

Deposit insurance premiums increased $8,000 for the quarter ended September 30, 2004. First Home Savings Bank (First Home or the Savings Bank) received a credit during the quarter ended September 30, 2003 relating to the purchase of the Crane and Galena branches to use against current premiums.

Deposit account processing expenses increased $50,000 through the outsourcing of check imaging and statement preparation beginning in January 2004.

During the quarter ended September 30, 2004, other noninterest expenses increased $67,000 to $402,000; increases were $37,000 for strategic planning and interest rate risk consulting, $11,000 in amortization of Missouri low-income housing tax credits purchased in December 2003 and $6,000 in marketing fees on the overdraft protection program.





**Net Interest Margin.** Net interest margin increased from 3.23% for the three months ended September 30, 2003 to 3.31% for the three months ended September 30, 2004. Income from earning assets decreased $230,000, or 6.46%, between the two quarters while interest expense decreased $220,000, or 14.31%. The average earning asset base decreased $7.8 million, or 3.12%, which was offset by a $8.0 million, or 3.41%, decrease in the average interest-bearing liability base.

**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, FHLB 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 FHLB line of credit can be drawn as an alternative source of funds. During the period presented, First Home used its sources of funds primarily to fund loan commitments, and pay maturing savings certificates and deposit withdrawals. At September 30, 2004, First Home had approved loan commitments totaling $3.6 million and undisbursed loans in process of $3.2 million.

Liquid funds necessary for normal daily operations of First Home are maintained in two working checking accounts and a daily time account with the FHLB of Des Moines. It is the Savings Bank's current policy to maintain adequate collected balances in those two 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 to enhance income or to reduce any outstanding line-of-credit advance from the FHLB or purchase investment securities.

Normal daily operating expenses are expected to remain constant. Noninterest expense as a percentage of average assets at 2.6% is also expected to remain constant. Interest expense is expected to basically remain steady to decreasing slightly. While the deposit base is expected to remain constant, the average interest rates paid on new and renewed accounts is expected to increase slightly. The balance in outstanding loans is expected to decrease slightly combined with constant rates earned on new and existing adjustable rate loans.

At September 30, 2004, certificates of deposit amounted to $99.9 million, or 49% of First Home's total deposits, including $38.0 million of fixed rate certificates scheduled to mature within 12 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 FHLB advances and adjust the offering rates of savings certificates to retain deposits in changing interest rate environments.



**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OR PLAN OF OPERATION**

**(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 September 30, 2004.

| | (Unaudited) | |
|---|---|---|
| | **Amount** | **Percent of Adjusted Total Assets** |
| | (Dollars in thousands) | |
| Tangible capital | $23,647 | 9.2 % |

| | | |
|---|---|---|
| Tangible capital requirement | 3,855 | 1.5 |
| Excess | **$19,792** | **7.7 %** |
| | | |
| Core capital | $23,647 | 9.2 % |
| Core capital requirement | 10,346 | 4.0 |
| Excess | **$13,301** | **5.2 %** |
| | | |
| Risk-based capital | $24,814 | 16.5 % |
| Risk-based capital requirement | 12,290 | 8.0 |
| Excess | **$ 12,524** | 8.5 **%** |



**ITEM 3.**

**CONTROLS AND PROCEDURES**

(a)

Evaluation of Disclosure Controls and Procedures: An evaluation of the Company s disclosure controls and procedures (as defined in Section 13(a)-14(c) of the Securities Exchange Act of 1934 (Act) was carried out under the supervision and with the participation of the Company s Chief Executive Officer, Chief Financial Officer and other members of the registrant s senior management. The Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company s management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

(b)

Changes in Internal Controls: In the quarter ended September 30, 2004, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

## 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 AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Company s Annual Meeting of Shareholders was held on October 20, 2004 at the Days Inn Conference Room located at 300 East 19th Street, Mountain Grove, Missouri. The results of the vote on the three items presented at the meeting were as follows:

**Election of Directors**

Shareholders elected the following nominees to the Board of Directors for the terms indicated by the following vote:

| | | FOR | | WITHHELD | |
|---|---|---|---|---|---|
| | Term to Expire | Number of Votes | Percentage | Number of Votes | Percentage |
| John G. Moody | 2007 | 1,278,249 | 98.4% | 20,226 | 1.6% |
| Charles W. Schumacher | 2007 | 1,251,877 | 96.4% | 46,598 | 3.6% |

*2004 Stock Option Plan*

Shareholders approved the 2004 Stock Option Plan ( SOP ), authorizing the issuance of 100,000 shares of common stock under the SOP by the following vote:

Number

| | | of Votes | Percentage |
|---|---|---|---|
| FOR | | 498,563 | 95.6% |
| AGAINST | .. | 17,922 | 3.4% |
| ABSTAIN | .. | 5,280 | 1.0% |
| BROKER NON-VOTE | | 776,710 | N/A |

*2004 Management Recognition Plan*

Shareholders approved the 2004 Management Recognition Plan ( MRP ), authorizing the issuance of 50,000 shares of restricted common stock under the MRP by the following vote:

| | | Number of Votes | Percentage |
|---|---|---|---|
| FOR | | 493,427 | 94.6% |
| AGAINST | .. | 22,842 | 4.4% |
| ABSTAIN | .. | 5,496 | 1.1% |
| BROKER NON-VOTE | | 776,710 | N/A |

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

3.1

Articles of Incorporation of First Bancshares, Inc.*

3.2

Bylaws of First Bancshares, Inc.*

10.2

First Home Savings Bank 1994 Employee Stock Ownership Plan*

10.3

First Bancshares, Inc. 1993 Stock Option Plan**

10.4

First Home Savings Bank Management Recognition and Development Plan**

a.1

Employment Agreement with Charles W. Schumacher (incorporated by reference to the Form 10KSB filing for the fiscal year ended June 30, 2001)

a.2

First Bancshares, Inc. 2004 Stock Option Plan***

a.1

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

a.2

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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*

Incorporated by reference to the Company s Registration Statement on Form S-1 File No. 33-69886.

**

Incorporated by reference to the Company s 1994 Annual Meeting Proxy Statement dated September 14, 1994.

***

Incorporated by reference to the Company s 2004 Annual Meeting Proxy Statement dated September 15, 2004.



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: November 15, 2004

By: /s/ Charles W. Schumacher

Charles W. Schumacher

Chairman, President and CEO

By: /s/ Susan J. Uchtman

Susan J. Uchtman

CFO

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles W. Schumacher, President and Chief Executive Officer, certify that:

1.

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

2.

Based on my knowledge, this 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 report;

3.

Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4.

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

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b)

Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c)

Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

1.

The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 15, 2004

/s/ Charles W. Schumacher
Charles W. Schumacher
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Susan J. Uchtman, Chief Financial Officer, certify that:

1.

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

1.

Based on my knowledge, this 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 report;

2.

Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4.

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

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b)

Evaluated the effectiveness of the registrant s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c)

Disclosed in this report any change in the registrant s internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting; and

5.

The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting.

Date: November 15, 2004

/s/ Susan J. Uchtman
Susan J. Uchtman
Chief Financial Officer

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Exhibit 32

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 Quarterly Report on Form 10-QSB, that:

•

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

•

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

| | |
|---|---|
| Date: November 15, 2004 | /s/ Charles W. Schumacher<br>Charles W. Schumacher<br>Chief Executive Officer |
| Date: November 15, 2004 | /s/ Susan J. Uchtman<br>Susan J. Uchtman<br>Chief Financial Officer |