FIRST BANCSHARES INC /MO/
Form 10QSB
November 14, 2006

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 ended September 30, 2006

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 small business issuer 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
(Issuer'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 ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes ___ No X

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 1,551,715 shares outstanding on November 7, 2006

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

FIRST BANCSHARES, INC. AND SUBSIDIARIES

FORM 10-QSB

September 30, 2006

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	September 30, 2006 (Unaudited)	June 30, 2006 (Unaudited)
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 17,330	$ 23,474
Certificates of deposit purchased	3,866	3,827
Securities available-for-sale	20,853	20,884
Securities held-to-maturity	18,246	19,210
Federal Home Loan Bank stock, at cost	1,695	1,612
Loans receivable, net	147,459	141,987
Accrued interest receivable	1,329	1,178
Prepaid expenses	333	292
Property and equipment	8,063	8,028
Real estate owned	574	497
Intangible assets	323	336
Deferred tax asset, net	721	718
Income taxes recoverable	195	317
Bank-owned life insurance	5,760	5,705
Other assets	332	330
Total assets	$227,079	$228,395
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$174,704	$179,141
Advances from Federal Home Loan Bank	25,000	22,000
Accrued expenses and accounts payable	924	963
Total liabilities	200,628	202,104
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 September 30 and June 30, 1,551,715 and 1,552,480 outstanding at September 30 and June 30, respectively	29	29
Paid-in capital	17,864	17,852
Retained earnings - substantially restricted	27,713	27,703
Treasury stock - at cost; 1,343,321 and 1,342,556 shares at September 30 and June 30, respectively	(19,098)	(19,085)

Accumulated other comprehensive income (loss)	(57)	(208)
Total stockholders' equity	26,451	26,291
Total liabilities and stockholders' equity	$227,079	$228,395

See notes to the consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) Quarter Ended September 30, 2006	2005
	(Dollars in thousands)	
Interest Income:		
Loans receivable	$2,568	$2,760
Securities	454	401
Other interest-earning assets	204	110
Total interest income	3,226	3,271
Interest Expense:		
Deposits	1,303	924
Borrowed funds	324	406
Total interest expense	1,627	1,330
Net interest income	1,599	1,941
Provision for loan losses	110	793
Net interest income after provision for loan losses	1,489	1,148
Noninterest Income:		
Service charges and other fee income	445	483
Gain (loss) on sale of property and equipment and real estate owned	47	(52)
Income from bank-owned life insurance	54	58
Other	45	22
Total noninterest income	591	511
Noninterest Expense:		
Compensation and employee benefits	1,165	1,018
Occupancy and equipment	329	297
Customer deposit account processing fees	2	60
Deposit insurance premiums	6	6
Professional fees	59	74
Other	416	383

Total noninterest expense	1,977	1,838
Income (loss) before taxes	103	(179)
Income Taxes	31	(137)
Net income (loss)	$ 72	$ (42)
Earnings (loss) per share - basic	$ .05	$ (.03)
Earnings (loss) per share - diluted	.05	(.03)
Dividends per share	.04	.04

See notes to the consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Three Months Ended September 30, 2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 72	$ (42)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	162	174
Amortization of intangible assets	13	17
Premium amortization	2	16
Increase in cash surrender value of bank-owned life insurance	(55)	(58)
Loss (gain) on sale of property and equipment and real estate owned	(47)	53
Provision for loan losses	110	793
Stock-based compensation	13	-
Net change in operating accounts:		
Accrued interest receivable and other assets	(194)	(85)
Deferred loan costs	-	9
Income taxes recoverable - current	122	(397)
Deferred income taxes	(93)	258
Accrued expenses and accounts payable	(39)	(34)
Net cash from operating activities	66	704
Cash flows from investing activities:		
Purchase of securities held-to-maturity	(345)	-
Proceeds from redemption of Federal Home Loan Bank stock	-	4
Purchases of Federal Home Loan Bank stock	(83)	-

Proceeds from maturities of securities available-for-sale	272	664
Proceeds from maturities of securities held-to-maturity	1,306	477
Net change in certificates of deposits	(39)	(20)
Net change in loans receivable	(5,809)	4,718
Purchases of property and equipment	(197)	(176)
Proceeds from sale of property and equipment and real estate owned	197	45
Other	-	1
Net cash from (used in) investing activities	$(4,698)	$5,713

continued

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	(Unaudited) Three Months Ended September 30, 2006	2005
	(In thousands)	
Cash flows from financing activities:		
Net change in deposits	$(4,437)	$(4,755)
Proceeds from borrowed funds	3,000	100
Payments on borrowed funds	-	(61)
Proceeds from sale of common stock	-	15
Purchase of treasury stock	(13)	-
Cash dividends paid	(62)	(62)
Net cash used in financing activities	(1,512)	(4,763)
Net increase (decrease) in cash and cash equivalents	(6,144)	1,654
Cash and cash equivalents - beginning of period	23,474	20,617
Cash and cash equivalents - end of period	$17,330	$22,271

See notes to the consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Quarter Ended September 30, 2006	2005
	(In thousands)	
Net income (loss)	$ 72	$ (42)
Unrealized gains (losses) on securities		
Gains (losses) arising during period, net of tax	151	(129)
Other comprehensive income (loss)	151	(129)
Comprehensive income (loss)	$223	$(171)

See notes to the consolidated financial statements.

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE A - Significant Accounting Policies

The accompanying consolidated statements of financial condition as of September 30, 2006 and June 30, 2006, and the consolidated statements of income, comprehensive income, and cash flows for the three months ended September 30, 2006 and 2005, include the accounts and transactions of First Bancshares, Inc. (the "Company") and its wholly-owned subsidiaries, First Home Savings Bank ("Bank") and SCMG, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The financial statements and notes thereto should be read in conjunction with the Company's June 30, 2006 Annual Report on Form 10-KSB. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly these consolidated financial statements. The results for these interim periods may not be indicative of results for the entire year or for any other period.

NOTE B - Earnings per Share

Basic earnings per share excludes dilution and is computed by dividing net income (loss) 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 could be issued as a result of the exercise of stock options has been reduced by the number of shares that could have been purchased using the proceeds from the exercise of the options at the average market price of the Company's stock.

	Weighted Average Number Of Common Shares	Dilutive Shares Issuable
Quarter ended September 30, 2006	1,552,373	-
Quarter ended September 30, 2005	1,553,401	-

FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE C - Employee Benefit Plans

The Company's 2004 Management Recognition Plan ("MRP") authorizes the award of shares to certain officers, employees and directors for up to 50,000 shares of the Company's common stock. All shares awarded will have a restricted period to be determined by the Corporation's Compensation Committee, who administers the Plan. The restricted period shall not be less than three years if the award is time based, or not less than one year if performance based. This Plan was approved by shareholders in October 2004. As of September 30, 2006 there have been no awards made under the MRP .

The Company's 2004 Stock Option and Incentive Plan ("Plan") authorizes the grant of options to certain officers, employees and directors for up to 100,000 shares of the Company's common stock. The Plan is intended to promote stock ownership by directors and selected officers of the Company to increase their proprietary interest in the success of the Company and to encourage them to remain in the employment of the Company or its subsidiaries. Awards granted under the Plan may include incentive stock options or nonqualified stock options. The Plan provides for the grant of options at an exercise price equal to the market price of the Company's stock on the date of grant. All options granted have ten year terms and vest and become exercisable ratably over five years following the date of grant. This Plan was approved by shareholders in October 2004.

On July 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment." This Statement revised SFAS No. 123, "Accounting for Stock-Based Compensation," amends SFAS No. 95, "Statement of Cash Flows," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Upon adoption of SFAS No. 123(R), the Company used the modified prospective transition method. The modified prospective method requires that compensation expense be recorded for all non-vested options beginning with the first quarter after adoption. SFAS No. 123(R) requires that all share-based compensation now be measured at fair value and recognized as an expense in the income statement. The Company estimates the fair value of each option award on the date of grant using the Black-Scholes method. 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 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. The Company used the following weighted-average assumptions for grants in 2006, respectively: dividend rates of .9%, price volatility of 20.38%, risk- free interest rates of 4.47%, and expected lives of 10 years for all periods. The share-based compensation charged against income was $13,125 for the three months ended September 30, 2006.

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FIRST BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE C - Employee Benefit Plans (Continued)

A summary of option activity under the Plan as of September 30, 2006, and changes during the quarter ended September 30, 2006, is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
			(in years)	
Outstanding at beginning of period	48,000	$17.46		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(1,000)	17.50		
Outstanding at end of period	47,000	$17.46	9.42	-
Exercisable at end of period	5,000	$17.79	9.25	-

A summary of the Company's nonvested shares as of September 30, 2006, and changes during the quarter ended September 30, 2006, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at July 1, 2006	43,000	$ 6.25
Granted	-	-
Vested	-	-
Forfeited	1,000	6.25
Nonvested at September 30, 2006	42,000	6.25

As of September 30, 2006, there was $231,421 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 4.5 years.

The pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. SFAS No. 123 established a fair value based method for financial accounting and reporting for stock-based employee compensation plans and for transactions in which an entity issued its equity instruments to acquire goods and services from nonemployees. However, the standard allowed compensation to continue to be measured by using the intrinsic value based method of accounting prescribed by APB No. 25, but required expanded disclosures. The Company had elected to apply the intrinsic value based method of accounting for stock options issued to employees. Accordingly, prior to July 1, 2006, no compensation cost had been recognized by the Company in its financial statements. Had compensation cost for the Plan been determined based on the grant date fair values of awards (the method described in SFAS No. 123), the approximate reported net income and earnings per share would not have been materially different from amounts reported in the consolidate statements of income.

NOTE D - Regulatory Supervision

First Home Savings Bank is a Missouri state-chartered savings and loan association, and is subject to the regulation of and examination by the Missouri Division of Finance, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision ("OTS"). The OTS recently completed an examination of the Bank and determined that certain of the Bank's lending policies and procedures were deficient, and that, as a result of the Bank's recent operating losses, the Bank needs to revise its business plan and budget to enhance profitability. In connection with OTS' determinations and other issues noted in the examination, the Bank anticipates that it will be entering into a memorandum of understanding with the OTS in the near future. At this time management believes this agreement will not have an affect on how the Company operates and it should not have an impact on earnings.

NOTE E - Reclassifications

Certain amounts in the prior period financial statements have been reclassified, with no effect on net income or stockholders' equity, to be consistent with the current period classification.

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

General
The discussion and analysis included herein covers those material changes in liquidity and capital resources that have occurred since June 30, 2006, as well as certain material changes in results of operations during the three month periods ended September 30, 2006 and 2005.

The following narrative is written with the presumption that the users have read or have access to the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2006, 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, 2006, and for the year then ended. Therefore, only material changes in financial condition and results of operations are discussed herein.

Forward-Looking Statements
This report contains certain "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, changes in demand for loans and other services, competition from other institutions, the credit and other risks posed by the Company's loan portfolio and loan loss experience, the quality or composition of the Company's investment portfolios, the general economic climate in the Company's market area and the country as a whole, changes in federal and state regulation and other factors detailed from time to time in our filings with the Securities and Exchange Commission. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Critical Accounting Policies
Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2006 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements.

Financial Condition
Total assets remained constant during the quarter with a decrease of $1.3 million to $227.1 million at September 30, 2006. Loans receivable increased $5.5 million during the quarter due to the recent opening of the Springfield, Missouri branch. This increase was funded by a $6.1 million decrease in cash and cash equivalents. Customer deposits decreased $4.4 million from June 30, 2006 to September 30, 2006 as the Bank lost deposits to new competition in its market area. This decrease was partially offset by an increase of $3.0 million in advances from the Federal Home Loan Bank.

Non-performing assets decreased to $1.2 million, or .5% of total assets at September 30, 2006 from $1.3 million, or .6% of total assets, at June 30, 2006. The ratio of non-performing assets to total assets was 2.2% at June 30, 2005. The Bank's non-performing loans consist of non-accrual loans, past due loans over 90 days and impaired loans not past due or past due less than 60 days. The decrease in non-performing assets does not necessarily indicate an improvement in the quality of the Bank's loan portfolio as evidenced by classified loans increasing $2.2 million from $6.1 million at June 30, 2005 to $8.3 million, at June 30, 2006. Classified loans at September 30, 2006 amounted to $6.1 million. This reduction is primarily due to a decrease in past due loans and to a lesser extent payoffs of problem credits. The Bank has implemented stricter internal policies relating to the identification and monitoring of its problem loans due to the problems experienced in the commercial, commercial business and consumer loan portfolios.

In addition to the classified loans, the Bank has identified an additional $5.3 million of credits at September 30, 2006 on its internal watch list. Management has identified these loans as high risk credits and any deterioration in their financial condition could increase the classified loan totals.

The Office of Thrift Supervision requires institutions such as the 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 Bank's capital ratios and the ratios required by the Financial Institutions Reform, Recovery and Enforcement Act and subsequent regulations at September 30, 2006.

	(Unaudited)	
	Amount	Percent of Adjusted Total Assets
	(Dollars in thousands)	
Tangible capital	$22,829	10.2%
Tangible capital requirement	3,358	1.5
Excess	$19,471	8.7%
Core capital	$22,829	10.2%
Core capital requirement	8,955	4.0
Excess	$13,874	6.2%
Risk-based capital	$24,611	17.4%
Risk-based capital requirement	11,344	8.0
Excess	$13,267	9.4%

Results of Operations

Net Income. Net income for the quarter ended September 30, 2006 was $72,000, an increase of $114,000 from a loss of $42,000 for the quarter ended September 30, 2005. The increase was the result of a $683,000 decline in the provision for loan losses. During the quarter ended September 30, 2005 the Bank engaged a third party to review major loan credits and implemented stricter internal standards in identifying and analyzing classified loans. As a result of the outside review and the stricter internal standards non-performing and classified loans significantly increased. The decrease in the provision for loan losses was offset by a $342,000 decrease in net interest income and an increase of $139,000 in noninterest expense.

Net Interest Income. Net interest income decreased $342,000, or 17.6%, to $1.6 million for the quarter ended September 30, 2006 from $1.9 million for the quarter ended September 30, 2005. This was primarily the result of an increase in interest expense of $297,000.

Interest Income. Interest income decreased $45,000, or 1.4%, from $3.3 million for the quarter ended September 30, 2005 to $3.2 million for the quarter ended September 30, 2006. Interest income from loans receivable decreased $192,000 from $2.8 million for the quarter ended September 30, 2005 to $2.6 million for the quarter ended September 30, 2006. The decrease was attributable to a $13.9 million decrease in average loans outstanding. However, the average yield earned on loans increased from 7.02% for the quarter ended September 30, 2005 to 7.30% for the quarter ended September 30, 2006. The decrease in average loans was primarily the result of declining interest rates and the Bank's competition refinancing loans with fixed-rate loan products. The Bank has historically not offered fixed-rate loans. However, with the opening of the Springfield branch loans increased $5.5 million during the quarter ended September 30, 2006.

Interest income from securities was $454,000 for the quarter ended September 30, 2006, an increase of $53,000 from $401,000 for the quarter ended September 30, 2005. This increase resulted from the average interest rate earned on securities increasing from 3.34% for the quarter ended September 30, 2005 to 4.37% for the quarter ended September 30, 2006. The increase in the average interest rate earned was due to the Company selling $7.0 million of securities during the quarter June 30, 2006 and reinvesting the proceeds in securities with higher yields. Income from other interest-earning assets increased $94,000 from $110,000 for the quarter ended September 30, 2005 to $204,000 for the quarter ended September 30, 2006. The average rate earned on these assets increased from 2.72% for the quarter ended September 30, 2005 to 3.56% for the quarter ended September 30, 2006 and the average balance of these assets increased from $16.1 million for the quarter ended September 30, 2005 to $23.0 million for the quarter ended September 30, 2006 as funds from loan payoffs were redeployed in other interest-earning assets.

Interest Expense. Interest expense increased $297,000, or 22.3%, from $1.3 million for the quarter ended September 30, 2005 to $1.6 million for the quarter ended September 30, 2006. This increase was due to a $379,000 increase in the cost of customer deposits primarily caused by average rates paid on customer deposits increasing from 2.12% for the quarter ended September 30, 2005 to 3.04% for the quarter ended September 30, 2006. A decrease of $7.1 million in the average outstanding balance of FHLB advances reduced interest expense by $82,000.

Provision for Loan Losses. The provision for loan losses decreased $683,000, from $793,000 for the quarter ended September 30, 2005 to $110,000 for the quarter ended September 30, 2006. During the quarter ended September 30, 2005 the Bank engaged a third party to review major loan credits and implemented stricter internal standards in identifying and analyzing classified loans. As a result of the outside review and the stricter internal standards non-performing and classified loans significantly increased. The allowance for loan losses was $2.5 million, or 1.67%, of gross loans at September 30, 2006. Loan losses, net of recoveries, were $66,000 for the quarter ended September 30, 2006 compared to $1.6 million for the quarter ended September 30, 2005.

Noninterest Income. Noninterest income increased $80,000, from $511,000 for the quarter ended September 30, 2005 to $591,000 for the quarter ended September 30, 2006. The increase was due to a gain of $47,000 being recognized from the sale of real estate owned during the quarter ended September 30, 2006 compared with a loss of $52,000 being recorded in the quarter ended September 30, 2005. This increase was offset by a reduction in service charges and other fee income of $38,000. The decline in service charges and other fee income is the result of the decline in customer deposit accounts.

Noninterest Expense. Noninterest expense was $2.0 million for the quarter ended September 30, 2006, an increase of $139,000, or 7.6%, from $1.8 million for the quarter ended September 30, 2005. This increase was due to increased compensation costs and occupancy and equipment costs of $179,000 of which $118,000 related to the new Springfield branch. The remaining $61,000 was due to annual salary increases and stock-based compensation of $13,000 being recognized during the quarter ended September 30, 2006. A reduction in customer deposit account processing fees of $58,000 helped to offset these increased costs. This reduction was due to the elimination of outsourcing the processing of customer deposit account transactions in late June 2006. This function is now be performed in-house by Bank employees.

Net Interest Margin. The Company's net interest margin decreased from 3.51% for the three months ended September 30, 2005 to 3.10% for the three months ended September 30, 2006 primarily due to a 40 basis point decline in the Company's net interest spread and a $12.8 million, or 5.9%, decline in average interest earning assets.

Liquidity and Capital Resources
The Bank's primary sources of funds are deposits, proceeds from principal and interest payments on loans, securities, FHLB advances and net operating income. While maturities and scheduled amortization of loans and securities are a somewhat predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank 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. At September 30, 2006, $15.5 million of additional funds can be drawn on the FHLB as an alternative source of funds. During the three months ended September 30, 2006, the Bank used its sources of funds primarily to fund loan commitments, and pay maturing savings certificates and deposit withdrawals.

Liquid funds necessary for normal daily operations of the Bank are maintained in two working checking accounts, a daily time account with the FHLB of Des Moines and a repurchase agreement account with a regional bank. It is the 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 the daily time account or the repurchase account to enhance income or to reduce any outstanding advances from the FHLB or purchase securities.

At September 30, 2006, certificates of deposit amounted to $89.1 million, or 51% of the Bank's total deposits. Historically, the Bank 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.

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 Rule 13a-15(e) of the Securities Exchange Act of 1934 (Act) was carried out as of the end of the period covered by the report under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and other members of the Company'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) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls over Financial Reporting: During the quarter ended September 30, 2006, the Company remediated the material weakness reported as of June 30, 2006 in which the Company did not identify or record certain transactions related to the other than temporary impairment of certain equity securities. To remediate the material weakness in the Company's internal control over financial reporting, the Company has implemented controls to quantify and record the impairment of the debt and equity securities and evaluate the near term prospects of the issuer in relation to the severity, duration and materiality of the unrealized losses. No other changes have occurred in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's 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. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

The following table summarizes the stock repurchase program information for the three months ended September 30, 2006:

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(1)
July 1-31, 2006	-	$ -	-	70,583
August 1-31, 2006	-	$ -	-	70,583
September 1-30, 2006	765	$16.68	765	69,818
Total	765	$16.68	765	69,818

(1) The Company completed ten separate stock repurchase programs between March 9, 1994 and May 28, 2004. On May 28, 2004, an eleventh repurchase program of 164,336 shares was initiated. As of November 7, 2006, 69,818 shares remained available for repurchase under the eleventh repurchase program.

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

3.1	Articles of Incorporation of First Bancshares, Inc. (1)
3.2	Bylaws of First Bancshares, Inc.(1)
4.1	Specimen stock certificate of First Bancshares, Inc. (1)
10.1	First Home Savings Bank 1994 Employee Stock Ownership Plan (1)
10.2	First Bancshares, Inc. 1993 Stock Option Plan (2)
10.3	First Home Savings Bank Management Recognition and Development Plan (2)
10.4	First Bancshares, Inc. 2004 Management Recognition Plan (3)
10.5	First Bancshares, Inc. 2004 Stock Option Plan (3)
10.6	Form of Incentive Stock Option Agreement (4)
10.7	Form of Non-Qualified Stock Option Agreement (4)
10.8	First Bancshares, Inc. 2004 Management Recognition Plan (3)
10.9	Severance Agreement between First Bancshares, Inc. and First Home Savings Bank and Charles W. Schumacher (5)
10.10	Employment Agreement with James W. Duncan (6)
31.	Rule 13a-14(a) Certification (Chief Executive Officer and Interim Chief Financial Officer)
32	Section 1350 Certifications

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(1) Incorporated by reference to the Company's Registration Statement on Form S-1 File No. 33-69886.
(2) Incorporated by reference to the Company's 1994 Annual Meeting Proxy Statement dated September 14, 1994.
(3) Incorporated by reference to the Company's 2004 Annual Meeting Proxy Statement dated September 15, 2004.
(4) Filed as an exhibit to the Current Report on Form 8-K dated February 22, 2006 and incorporated herein by reference.
(5) Filed as an exhibit to the Current Report on Form 8-K dated October 31, 2005.
(6) Filed as an exhibit to the Quarterly Report on Form 10-QSB for the quarter ended December 31, 2005.

SIGNATURES

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

First Bancshares, Inc.

Date: November 14, 2006 By: /s/James W. Duncan

James W. Duncan
President, CEO and Interim
Chief Financial Officer

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Exhibit 31

CERTIFICATION OF
PRINCIPAL EXECUTIVE AND INTERIM PRINCIPAL FINANCIAL OFFICER

I, James W. Duncan, 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 small business issuer as of, and for, the periods presented in this report.

4. The small business issuer'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 small business issuer 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer'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 small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 14, 2006

/s/James W. Duncan

James W. Duncan
President, Chief Executive Officer and
Interim Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND INTERIM 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:

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: November 14, 2006

/s/ James W. Duncan

James W. Duncan
President, Chief Executive Officer
and Interim Chief Financial Officer