FIRST BANCSHARES INC /MO/
Form 10KSB
September 28, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2007 OR

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

Commission File Number: 0-22842

FIRST BANCSHARES, INC.

(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 E. First Street Mountain Grove, Missouri	65711
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (417) 926-5151

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act [ ]

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [x]

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

The issuer's revenues for the fiscal year ended June 30, 2007 were $16.0 million.

As of September 24, 2007, registrant had outstanding 1,550,815 shares of common stock. The registrant's common stock is listed on the Nasdaq Global Market of The Nasdaq Stock Market LLC under the symbol "FBSI." The aggregate market value of the common stock held by nonaffiliates of the registrant, based on the closing sales price of the registrant's common stock as quoted on The Nasdaq Stock Market LLC on December 31, 2006, was $23.7 million. For purposes of this calculation, officers and directors of the registrant and the Employee Stock Ownership Plan are considered affiliates of the registrant. The exclusion of the value of the shares owned by these individuals shall not be deemed an admission by the issuer that such person is an affiliates of the issuer.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended June 30, 2007. (Parts I and II)

2. Portions of the Proxy Statement for the 2007 Annual Meeting of Stockholders. (Part III)

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that may relate to First Bancshares, Inc ("Company" or "First Bancshares") expected future financial results, strategic plans or objectives. These statements are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Company and the First Home Savings Bank ("Savings Bank" or "First Home"). Words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, projects, variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may materially differ from what may be expressed or forecasted in the forward-looking statements. The Company undertakes no obligation to update, amend, or clarify forward looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: the credit risks of lending activities, including changes in the level and direction of loan delinquencies, other loans of concern, loan write-offs and changes in estimates of the adequacy of the allowance for loan losses; competitive pressures among depository institutions; interest rate movements and their impact on customer behavior and net interest margin; the impact of repricing and competitor pricing initiatives on loan and deposit products; the ability to adapt successfully to technological changes to meet customers' needs and development in the marketplace; our ability to access cost-effective funding; changes in financial markets; changes in economic conditions in general and particularly as related to our market areas; new legislation or regulatory changes, including but not limited to changes in federal and/or state tax laws or interpretations thereof by taxing authorities; the outcome of litigation; limitations on our future business activities resulting from the Memorandum of Understanding between the Savings Bank and the Office of Thrift Supervision entered into on December 1, 2006; changes in accounting principles, policies or guidelines; the economic impact of any terrorist actions on our loan originations and loan repayments; and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

PART I

Item 1. Description of Business

General

First Bancshares a Missouri corporation, was incorporated on September 30, 1993 for the purpose of becoming the holding company for First Home upon the Savings Bank's conversion from a state-chartered mutual to a state-chartered stock savings and loan association ("Conversion"). The Conversion was completed on December 22, 1993. At June 30, 2007, the Company had consolidated total assets of $241.3 million, total deposits of $190.1 million and stockholders' equity of $26.5 million. The Company is not engaged in any significant activity other than holding the stock of First Home. Accordingly, the information set forth in this report, including consolidated financial statements and related data, relates primarily to operations of the Savings Bank. The Company's common shares trade on The Nasdaq Stock Market LLC under the symbol "FBSI."

The Savings Bank is a Missouri-chartered, federally insured stock savings and loan association organized in 1911. The Savings Bank conducts its business from its home office in Mountain Grove and ten full service branch facilities in Marshfield, Ava, Gainesville, Sparta, Theodosia, Crane, Galena, Kissee Mills, Rockaway Beach and Springfield, Missouri. The full service branch in Springfield, Missouri opened in July 2006. In addition, in March 2007 the Savings Bank opened a loan origination office in Springfield, Missouri for the purpose of originating primarily loans on single-family residences for sale into the secondary market. The deposits of the Savings Bank are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). As a Missouri-chartered savings and loan association, First Home derives its authority from, and is governed by, the provisions of the Missouri Savings and Loan Law ("Missouri Law") and regulations of the Missouri Division of Finance ("Division") and the Office of Thrift Supervision ("OTS"). See "-Regulation and Supervision" below.

The Savings Bank provides its customers with a full array of community banking services. The Savings Bank is primarily engaged in the business of attracting deposits from the general public and using such deposits, together with other funding sources, to invest in residential mortgage loans, commercial real estate loans, land loans, second mortgage loans, consumer loans and, to a lesser extent, commercial business loans, for its loan portfolio. As noted above, the Savings Bank also originates residential mortgage loans for sale into the secondary market. Excess funds are typically invested in securities and other assets. At June 30, 2007, the Savings Bank's net loans were $159.0 million, or 65.9% of consolidated total assets, including $86.5 million, or 53.6% of total loans, for residential mortgage, $40.3 million or 25.0% of total loans for commercial real estate, $9.1 million or 5.6% of total loans for land loans, $4.8 million, or 3.0% of total loans, for second mortgage loans and $20.7 million of consumer and commercial business loans, or 12.8% of total loans. Of loans maturing after June 30, 2008, adjustable rate mortgage ("ARM") loans account for approximately 70.35% of loans secured by real estate and 62.30% of the total loan portfolio. See "-- Lending Activities" below.

Corporate Developments and Overview

During the quarter ended December 31, 2006, the Savings Bank entered into a memorandum of understanding ("MOU") with the Office of Thrift Supervision (the "OTS"). The MOU resulted from issues noted during the examination of the Savings Bank conducted by the OTS, the report on which was dated in July 2006, and included deficiencies in lending policies and procedures, recent operating losses, and the need to revise both the business plan and the budget to enhance profitability. The corrective actions required to be taken by the Savings Bank under the MOU include, among others: (1) developing procedures concerning ongoing credit administration and monitoring; (2) continuing to identify, track and correct credit and collateral documentation exceptions and loan policy exceptions; (3) preparing and submitting to the Savings Bank's Board of Directors an accurate and complete loan-to-one borrower report; (4) preparing and updating, where appropriate, a workout plan for each classified asset over $250,000; (5) adopting a revised loan loss allowance policy; (6) amending the Savings Bank's appraisal policy to require written review of all appraisals prior to final loan approval; (7) adopting a revised loan policy that provides for underwriting guidelines, loan documentation, and credit administration procedures for unsecured loans; (8)either request the consent of the FDIC for the Savings Bank's subsidiary, FYBAR Service Corporation, to hold real estate for investment or approve a plan for divestiture of such investment by June 30, 2007; (9) implementing corrective actions with respect to the previously conducted independent information technology audit; and (10) preparing, adopting and submitting to the OTS a comprehensive three year business plan and budget. During July 2007, the OTS performed an on-site review of the progress made on the resolving the issues discussed in the MOU. The Company believes that, except for the development of the three-year business plan, for which an extension to October 31, 2007 was granted by the OTS, the Savings Bank has satisfactorily addressed all of the issues raised by the MOU. For a discussion of some of the risks faced by the Company relating to the MOU, see " Risk Factors" below.

During the first half of fiscal 2007, there were several changes in composition of senior management of both the Company and the Savings Bank. In November 2006, Ronald J. Walters was named Chief Financial Officer of both the Company and the Savings Bank, replacing the former Chief Financial Officer who departed in September 2006. In December 2006, James W. Duncan resigned as President and Chief Executive Officer of both the Company and the Savings Bank. Daniel P. Katzfey, Executive Vice President and Chief Lending Officer, was named Interim President and CEO. On January 19, 2007, Mr. Katzfey became President and Chief Executive Officer of both the Company and the Savings Bank. The Boards of Directors of the Company and the Savings Bank were expanded in connection with the addition of D. Mitch Ashlock and the appointment of an advisory director. During the quarter ended March 31, 2007, Mr. Duncan resigned as a director of both the Company and the Savings Bank, and Mr. Katzfey was appointed to both boards.

As the result of the senior management changes and the MOU, and other changes in products, operations and procedures, the Savings Bank needed to fill several positions, including Chief Lending Officer, credit analyst and controller. In March 2007, Dale W. Keenan was named Executive Vice President and Senior Loan Officer of the Savings Bank, and John K. Francka was named Senior Vice President-Chief Credit Officer of the Savings Bank. Both Messrs. Keenan and Francka have extensive experience in lending and management. In addition, Jeffrey Palmer was named Controller of the Savings Bank.

During the quarter ended March 31, 2007, the Savings Bank obtained permission from the State of Missouri to open a loan production office in Springfield, Missouri. This office, which was established primarily to originate single family mortgage loans for sale to the secondary market, complements the full-service branch office opened in Springfield in July 2006. The Savings Bank has added two originators, two loan processors and an individual whose responsibility is packaging the loans for delivery to and tracking receipt of funding from the companies on whose behalf the loans were made. All loan production office personnel have extensive experience in the origination of single-family mortgage loans for sale in the secondary market. Since the loans involved are originated on behalf of other parties, the servicing rights belong to the other parties as well, unless the terms of the sale provide for the retention of servicing rights by the Savings Bank. In its loan sale activity to date, the Savings Bank has not retained servicing rights.

The Savings Bank has continued to seek opportunities to reduce its non-interest expense and improve customer service through the utilization of technology. At the beginning of fiscal year 2007, the Savings Bank went from manual posting of all customer transactions to branch capture with electronic settlement with the Federal Reserve. This eliminated courier expenses to route checks and other items from the branches to the Mountain Grove office, and to the Federal Reserve. In addition, the Savings Bank also utilized imaging

features of branch capture, along with auto-mail technology, to internally generate customer statements. Third party processing costs and related courier expenses were eliminated, postage expense decreased, and statement delivery time to customers decreased from approximately three weeks to three days.

During the quarter ended March 31, 2007, the Savings Bank began to extend this technology to business customers with high volumes of check deposits, allowing for remote image capture with equipment located at the customer facilities. In addition, remote image capture provides a powerful marketing tool when calling on prospective customers.

Risk Factors

As is the case with all investments in stock, an investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. Additional risks and uncertainties that we are not aware of or focused on or that we currently deem immaterial may also exist and could materially and adversely affect the Company's business, financial condition and results of operations. This report is qualified in its entirety by these risk factors.

If any of the circumstances described in the following risk factors actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

We are subject to the restrictions and conditions of a Memorandum of Understanding with, and other commitments we have made to, the Office of Thrift Supervision. Failure to comply with the Memorandum of Understanding could result in additional enforcement action against us, including the imposition of monetary penalties.

As discussed above under "Corporate Developments and Overview," we entered into a Memorandum of Understanding with the Office of Thrift Supervision on December 1, 2006, which requires us to, among other things, take certain actions with respect to deficiencies in lending policies and procedures and recent operating losses, and to revise both our three-year business plan and budget to enhance profitability. While we believe we are currently in compliance with the terms of the Memorandum of Understanding, if we fail to comply with these terms, the Office of Thrift Supervision could take additional enforcement action against us, including the imposition of monetary penalties or the issuance of a cease and desist order requiring further corrective action. We have incurred significant additional regulatory compliance expense in connection with the Memorandum of Understanding, and although we do not expect it, it is possible regulatory compliance expenses related to the Memorandum of Understanding and our other commitments could have a material adverse impact on us in the future. As required by the Memorandum of Understanding, we are currently developing a revised three-year business plan and budget which we must submit to the Office of Thrift Supervision by October 31, 2007 for its approval. It is possible that the Office of Thrift Supervision will not approve our proposed business plan and budget, or require modifications that limit our business activities and growth potential. In addition, the Office of Thrift Supervision must approve any material deviation from our approved business plan, which could further limit our ability to make changes to our business activities.

We have had losses and low earnings in recent years.

Our net income has decreased in recent years. Net income was $272,000, $1.3 million, $2.3 million and $2.2 million for the fiscal years ended June 30, 2007, 2005, 2004 and 2003, respectively. We had a net loss of $173,000 for the fiscal year ended June 30, 2006. Our return on average assets was 0.09%, 0.51%, 0.87% and 0.85 for the fiscal years ended June 30, 2007, 2005, 2004 and

2003 and our return on average equity was 0.77%, 4.60%, 8.49% and 8.68% for the same years. Our returns on average assets and average equity were negative for the fiscal year ended June 30, 2006, as we incurred a net loss for that year. We face significant challenges that will hinder our ability to improve our earnings significantly. These challenges include the fact that we currently operate under a Memorandum of Understanding with the Office of Thrift Supervision (discussed above) and have a significant amount of problem loans (discussed below), and we have a low interest rate spread. Our interest rate spread, which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest rate spread, declined from 3.31% for the year ended June 30, 2005 to 2.96% for the year ended June 30, 2006 to 2.71% for the year ended June 30, 2007. While we have identified various strategic initiatives we will pursue in our efforts to overcome these challenges and improve earnings, our strategic initiatives might not succeed in increasing our net income.

We have had a significant amount of problem loans and losses related to these loans.

Since 1999, we have focused our efforts on increasing our commercial business loan and commercial real estate loan portfolios. However, as a result, we recognized substantial losses in the fiscal years ended June 30, 2006 and 2005. Our ratio of non-performing assets to total assets increased from .59% at June 30, 2006 to 1.47% at June 30, 2007, and our total non-accruing loans increased from $841,000 at June 30, 2006 to $2.9 million at June 30, 2007. These increases are due in large part to five loans involving two borrowers. In one case, there are four loans totaling over $1.6 million where the borrower has filed for protection under the bankruptcy laws. While reorganization was the stated goal in bankruptcy, the situation evolved to the point where liquidation is the most probable outcome. The other loan, with a balance of $512,000 has already proceeded to liquidation. The allowance for loan losses was increased to cover the anticipated shortfall between the loan balances and the Small Business Administration guarantees and anticipated proceeds from liquidation of both the real estate and other collateral.

At June 30, 2007 classified assets were $4.3 million, a decrease from $8.3 million at June 30, 2006. Notwithstanding this decrease, we identified an additional $4.8 million of loans at June 30, 2007 on our internal watch list including $2.9 million, $805,000, $1.03 million and $73,000 of commercial real estate, commercial business, one-to-four family and consumer loans, respectively. We identified these loans as higher risk loans and any further deterioration in their financial condition could increase our classified assets.

We are highly dependent on key individuals, there has been significant turnover in our management team in the past five years and we are being led by a new management.

We are highly dependent on the continued services of a limited number of our executive officers and key management personnel. The loss of services of any of these individuals could have a material adverse impact on our operations because other officers may not have the experience and expertise to readily replace these individuals.

During the past five years we have had four different Presidents and Chief Executive Officers. Our current President and Chief Executive Officer has only served in that position since December 2006 having joined the Savings Bank in September 2006. Our Chief Financial Officer has only been with the Savings Bank since November 2006 and most of the other key members of senior management have been with the Savings Bank for less than a year.

While we believe we have in place qualified individuals to replace the individuals who have left the Savings Bank, the new individuals will need to develop a cohesive and unified management team. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and profitability.

We recently suspended our regular cash dividend and might not be able to resume the payment of dividends.

On March 1, 2007, in response to our recent operating performance, our board of directors decided to suspend our regular cash. We do not know if or when we will resume dividend payments. Whether we pay dividends in the future will depend on a number of factors, including capital requirements, our financial condition and results of operations, including our ability to generate sufficient earnings to warrant the payment of dividends, tax considerations, statutory and regulatory limitations and general economic conditions. In addition, our ability to pay dividends may depend, in part, on our receipt of dividends from the Savings Bank because the Company has minimal income sources beyond the earnings from the Savings Bank.

Our loan portfolio includes loans with a higher risk of loss.

We originate residential mortgage loans (including second mortgage loans), construction loans, commercial mortgage and land loans, commercial business loans and consumer loans primarily within our market area. Generally, the types of loans other than residential mortgage loans have a higher risk of loss than residential mortgage loans. We had $75.0 million or 47.16% of our total loan portfolio outstanding in these higher risk loans at June 30, 2007. We have had a significant increase in these types of loans since 1999, when we began to diversify the loan portfolio in order to mitigate other types of risk, such as interest-rate risk. While diversification into construction, commercial real estate and land, commercial business, and consumer loans may have reduced interest-rate risk due to the typically shorter terms and, in most cases, adjustable nature of their interest rates, they do expose a lender to greater credit risk than loans secured by residential real estate. The collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons and as discussed in detail under A-- Lending Activities:

* Commercial Real Estate and Land Loans. Commercial real estate and land loans typically involve higher principal amounts than other types of loans. Repayment is dependent upon income being generated in amounts sufficient to cover borrowers' operating expenses, as well as, debt service. Loans on land under development or held for future use also pose additional risk because of a lack of income produced by the property and the potential illiquid nature of the security. The repayment of loans secured by farm properties is dependent upon the success of farming operations, which is contingent on many factors outside the control of either the borrowers or us. These factors include adverse weather conditions, fluctuating market prices of both final product and production costs, factors affecting the physical condition of livestock and government regulations.

* Commercial Business Loans. Repayment of these loans is dependent upon the successful operation of the borrower's businesses.

* Consumer Loans. Consumer loans (such as vehicle loans, mobile home loans and personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

* Construction Loans. Construction lending involves the inherent difficulties of estimating the cost of the project and estimating a property's value at completion of the project. If the estimate of construction cost proves to be inaccurate, we may need to advance funds beyond the original loan amount in order to complete the project. If the estimate of value upon completion proves to be inaccurate, we may be confronted at, or prior to, the maturity of the

loan with a project the value of which is insufficient to assure full repayment.

A downturn in the local economy or a decline in real estate values could hurt our profits.

Nearly all of our loans are secured by collateral or dependent for repayment on businesses located in our primary market area, consisting of Wright, Webster, Douglas, Christian, Ozark, Stone, Taney and Greene Counties in the State of Missouri. As a result, a downturn in the local economy could cause significant increases in non-performing loans, which would adversely affect our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would negatively affect our profits. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss.

Changes in interest rates may reduce our net interest income.

Like other financial institutions, our operating results are largely dependent on our net interest income. Net interest income is the difference between interest earned on loans and investments and interest expense incurred on deposits and other borrowings. Our net interest income is impacted by changes in market rates of interest, changes in the shape of the yield curve, the interest rate sensitivity of our assets and liabilities, prepayments on our loans and investments and limits on increases in the rates of interest charged on our loans.

Our interest earning assets and interest bearing liabilities may react in different degrees to changes in market interest rates. Interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types may lag behind. The result of these changes to rates may result in differing spreads on interest earning assets and interest bearing liabilities. While we take measures intended to manage the risks from changes in market interest rates, we cannot control or accurately predict changes in market rates of interest nor be sure our protective measures are adequate.

There is strong competition in financial services including the market areas we serve.

We compete in our market areas with numerous commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and throughout the county. Some of these competitors have substantially greater resources and lending limits than we have, have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide profitably. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Our profitability depends upon the Company's continued ability to successfully compete in its market areas. The greater resources and deposit and loan products offered by some of our competitors may limit the Company's ability to attract funds or increase its interest-earning assets. For additional information see "-- Competition.

6

While management believes that our allowance for loan losses is sufficient to cover realized losses, our earnings could be adversely impacted should additional reserves be required.

We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans, our loss experience and our delinquency experience, and evaluate economic conditions, nationally and in our market areas. If our assumptions prove to have been incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in the loan portfolio, resulting in the need for additions to our allowance. Material additions to the allowance would materially decrease our net income. Our allowance for loan losses was 1.67% of total loans and 76.08% of non-performing assets at June 30, 2007, however, at June 30, 2007 our allowance was only 58.91% of total classified loans.

In addition, the bank regulators periodically review it, and the regulators may require us to increase our provision for loan losses or recognize further loan charge-offs. An increase in our allowance for loan losses or loan charge-offs as required by regulatory authorities could a material adverse effect on our financial condition and results of operations.

We are subject to extensive government regulation and supervision.

We are subject to extensive federal and state regulation and supervision, and, as discussed above, we currently operate under a memorandum of understanding with the Office of Thrift Supervision which places restrictions on our business activities. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations.

If we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, and, as a result, investors and depositors could lose confidence in our financial reporting, which could adversely affect our business, the trading price of our stock and our ability to attract additional deposits.

In connection with the enactment of the Sarbanes-Oxley Act of 2002 and the implementation of the rules and regulations promulgated by the SEC, the Company must maintain disclosure controls and procedures and internal control over financial reporting. If the Company fails to identify and correct any significant deficiencies in the design or operating effectiveness of its disclosure controls and procedures or internal control over financial reporting or fails to prevent fraud, current and potential shareholders, and depositors could lose confidence in our internal controls and financial reporting, which could adversely affect our business, financial condition and results of operations, the trading price of our stock and our ability to attract additional deposits.

We determined that at June 30, 2006 our disclosure procedures and controls were not effective in regard to the identification of other than temporary impairment of two equity securities. More specifically, at June 30, 2006 we did not properly identify or record certain the other than temporary impairment of two equity securities. While we took remedial action at June 30, 2006 that we believe corrected this deficiency, no assurance can be made that similar or other deficiencies do not currently exist or will not exist in the future.

Market Area

The Savings Bank is headquartered in the town of Mountain Grove, in Wright County, Missouri. Wright County has a population of approximately 17,000 and its economy is highly diversified, with an emphasis on the beef and dairy industries. Except for the branch office open in July of 2006 in Springfield, Missouri, the Savings Bank's market area is predominantly rural in nature. Its deposit taking and lending activities primarily encompass Wright, Webster, Douglas, Christian, Ozark, Stone, Taney and, since July 2006, Greene counties in Missouri. Significant companies in the rural areas include Hutchens Steel, Bore Flex, Inc., Copeland Corporation, Dairy Farmers of America and WoodPro Cabinetry. The Springfield market has a great many significant companies, including, Kraft Foods, Willow Brook Foods, Bass Pro Shops, O'Reilly Automotive, Positronic Industries, Lauren Cook Company and Paul Mueller Company. In addition, Missouri State University, St. John's Hospital and Cox Health Systems are major employers and contributors to the economic well-being of the Springfield, Missouri area. The Savings Bank also transacts a significant amount of business in Texas County, Missouri. The Savings Bank's market area, especially Ozark County because of its proximity to Norfolk and Bull Shoals lakes, has experienced a rather slow but steady growth from retirees. The Springfield market has shown robust growth and development over the past several years. Economic conditions in the Savings Bank's market areas, with the exception of a recent slight downturn in the housing market, have been relatively stable.

Selected Consolidated Financial Information

This information is incorporated by reference to pages 3 and 4 of the 2007 Annual Report to Stockholders ("Annual Report") attached hereto as Exhibit 13.

Average Balances, Yields Earned and Rates Paid

This information is incorporated by reference to page 15 of the Annual Report attached hereto as Exhibit 13.

Yields Earned and Rates Paid

This information is incorporated by reference to page 16 of the Annual Report attached hereto as Exhibit 13.

Rate/Volume Analysis

This information is incorporated by reference to page 17 of the Annual Report attached hereto as Exhibit 13.

Lending Activities

General. Historically, the principal lending activity of the Savings Bank has been the origination of conventional mortgage loans for the purpose of purchasing, constructing or refinancing one-to-four family owner occupied homes within its primary market area. While the Savings Bank continues to actively seek originations of such loans, most of the fixed-rates loans of this type are currently originated for sale in the secondary market. In an attempt to diversify its lending portfolio, the Savings Bank also originates commercial real estate loans, land loans, consumer loans, such as mobile home loans, automobile loans and loans secured by savings accounts, and, to a lesser extent, commercial business loans. The ratios of residential and commercial

real estate loans to total loans has shifted gradually in recent years as a result of both this diversification and the minimal number of fixed-rate one-to-four family loans originated for the portfolio. Additionally, the Savings Bank used the Small Business Administration's ("SBA") guaranteed programs between September 2000 and December 2005. As of June 30, 2007, 38 commercial business and commercial real estate loans with an aggregate balance of $7.3 million have SBA guarantees. The Savings Bank was not involved in SBA lending during the fiscal year ended June 30, 2007.

In addition to loans within the Savings Bank's primary market area, the Savings Bank also has originated ten one-to-four family loans, ten commercial real estate loans and five loans of other types in Arkansas, California, Oregon, Illinois, Nebraska, Tennessee and six other states. The 25 loans had an aggregate balance of $5.3 million at June 30, 2007. These loans were performing according to their scheduled repayment terms at June 30, 2007.

At June 30, 2007, the Savings Bank's net loans receivable totaled $159.0 million representing 65.9% of consolidated total assets. Historically, the Savings Bank has primarily originated ARM loan products. At June 30, 2007, ARM loans with a maturity date after June 30, 2008 accounted for $99 million or 62.30% of the total loan portfolio and 70.35% of loans secured by real estate. The Savings Bank focuses on serving the needs of its local community and strongly believes in a lending philosophy that emphasizes individual customer service and flexibility in meeting the needs of its customers. During the four years ended June 30, 2006, the Savings Bank experienced a significant decline in the amount of its one-to-four family loan portfolio. During the year ended June 30, 2007, the Savings Bank experienced growth in its one-to-four family loan portfolio, despite the fact that, since March 2007, most of these loans with fixed interest rates have been originated for other investors. Our loan officers have been directed to take a more pro-active approach in the generation of new business. While the origination of loans for others does not increase the Savings Bank's loan portfolio, it does provide the Savings Bank with the opportunity to generate fee income. In addition, the Savings Bank historically has retained some fixed-rate mortgage loans in its portfolio. The retained loans generally have a higher interest rate than those loans originated for other investors. Generally, fixed rate loans that are retained in the Savings Bank's portfolio will be small loans ($50,000 or less) where the value of the acreage is too great for the residence to qualify under the secondary market standard. Both of these are common occurrences in the Savings Bank's primary trade market in rural Missouri.

Loan Portfolio Analysis. The following table sets forth the composition of the Savings Bank's loan portfolio by type of loan as of the dates indicated. Construction loans are included in residential and commercial real estate loans depending on the type of security. At June 30, 2007, the Savings Bank had $11.0 million, or 6.89% of total loans, in interim construction loans in its portfolio of which $6.6 million were for residential construction, $233,000 were for multi-family construction and $4.2 million were for non-residential construction, as described below. At June 30, 2006, the Savings Bank had $5.1 million, or 3.42% of total loans, in interim construction loans in its portfolio. Because of the amount of its construction loans, and the fact that most of these loans are made with the intent to convert to permanent financing, the Savings Bank does not separately account for these types of loans.

	At June 30,								
	2007		2006		2005		2004		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amoun
	(Dollars in thousands)								
Type of Loan:									
Residential	$ 86,530	53.57%	$ 82,519	55.59%	$ 89,220	54.36%	$ 95,339	56.21%	$103,7
Commercial real estate (1)	40,331	24.97	37,097	24.99	41,492	25.28	40,196	23.70	41,1
Land	9,095	5.63	7,949	5.36	9,450	5.76	9,019	5.32	9,8
Second Mortgage loans	4,828	2.99	3,659	2.47	4,161	2.54	3,882	2.29	4,6
Total									

mortgage loans	140,784	87.16	131,224	88.41	144,323	87.94	148,436	87.52	159,4
Consumer Loans:									
Automobile loans	4,078	2.52	3,467	2.34	4,910	2.99	5,314	3.13	5,9
Savings account loans	1,504	0.93	1,709	1.15	1,709	1.04	1,900	1.12	1,8
Mobile home loans	3,589	2.22	2,438	1.64	2,139	1.30	1,970	1.16	1,7
Other consumer	2,860	1.77	1,060	0.71	979	0.60	1,629	0.96	1,8
Total other loans	12,031	7.45	8,674	5.84	9,737	5.93	10,813	6.38	11,3
Commercial business	8,700	5.39	8,532	5.75	10,057	6.13	10,350	6.10	9,1
Total loans	161,515	100.00%	148,430	100.00%	164,117	100.00%	169,599	100.00%	179,9
Add:									
Unamortized deferred loan costs, net of origination fees	171		184		201		224		2
Less:									
Undisbursed loans in process	1		4,153		3,324		2,324		2,3
Allowance for possible loan losses	2,692		2,474		2,851		1,240		1,1
Total loans receivable, net	$158,993		$141,987		$158,143		$166,259		$176,7

----
(1) Includes multi-family residential loans

One-to-Four Family Residential Loans. The Savings Bank originates residential mortgage loans to enable borrowers to purchase existing homes, to construct new one-to-four family homes or refinance existing debt on their homes. Management believes that the origination of one-to-four family residential mortgage loans has contributed positively to interest income. The increases in delinquencies and losses over the three years ended June 30, 2006 were primarily the result of lending activities other than one-to-four family residential mortgage lending. At June 30, 2007, $86.5 million, or 53.6% of the

Savings Bank's gross loan portfolio, consisted of residential mortgage loans (almost all of which are non-indexed ARMs, with the principal amortizing over loan terms ranging from 10 to 30 years). Since 1973 until fiscal 2006, the Savings Bank had originated almost exclusively ARM loan products. Initially, ARM loans were indexed to the Savings Bank's cost of funds. In 1979, the Savings Bank discontinued the use of the indexed ARM loans and changed to its current policy of non-indexed ARMs, which generally allows, but does not require, the Savings Bank to adjust the interest rate once a year, up or down, not to exceed 1% per year. Loans of this nature originated after 1988 generally were limited to a 6% maximum increase over the life of the loan. During the current year, the Savings Bank began offering fixed rate one-to-four family residential mortgage lending in an effort to compete with products offered by other lenders. Most of these loans are originated for sale in the secondary market.

The Savings Bank's lending policies generally limit the maximum loan-to-value ratio on one-to four family residential mortgage loans for portfolio to 100% of the lesser of the appraised value or purchase price of the underlying residential property. Loans exceeding 80% loan to value have a higher interest rate and loans exceeding 90% loan to value have private mortgage insurance, which reduces the loan-to-value ratio to 78%. Reducing the loan to value ratio of these loans limits the Savings Bank's exposure and allows these loans to qualify for sale in the secondary market. The Savings Bank requires title insurance, fire and casualty coverage and a flood zone determination on all residential mortgage loans originated or purchased. All of the Savings Bank's real estate loans contain "due on sale" clauses. In prior years, the Savings Bank's personnel prepared all property evaluations at no expense to the borrower unless the property is outside its normal lending territory or the loan exceeds $250,000, in which event, independent appraisers are utilized. During fiscal 2006, the Savings Bank changed its practice and now obtains independent appraisals on all residential mortgage loans, as well as, all non-residential mortgage loans.

At June 30, 2007, the Savings Bank had $6.6 million in residential construction loans in its portfolio with maximum loan to value ratios of 85% based upon the estimated value upon completion. Typically, the Savings Bank limits its construction lending to individuals who are building their primary residences. Generally, loan proceeds are disbursed as construction progresses, based on invoices presented and inspections made. Construction financing generally is considered to involve a higher degree of risk, and possibly loss, than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the estimated cost of construction and the accuracy of the initial estimate of the property's value at completion of construction or development. During the construction phase, a number of factors could result in delays and cost overruns. The Savings Bank has sought to minimize this risk by primarily limiting construction lending to qualified borrowers in the Savings Bank's market area. At June 30, 2007, speculative construction loans amounted to $2.1 million, or 1.31% of the total loan portfolio and custom construction loans amounted to $4.5 million, or 2.85% of the total loan portfolio. The majority of these loans are converted into permanent residential real estate loans. During construction, these loans typically require monthly interest-only payments. Once construction is completed, these loans convert to monthly principal and interest based on amortization schedules for conventional residential or commercial buildings.

Second Mortgage Loans. The Savings Bank offers fixed and adjustable rate second mortgage loans that are usually made on the security of the borrower's

residence. Loans normally do not exceed 80% of the appraised value of the residence, less the outstanding principal of the first mortgage, and have terms of up to 10 years requiring monthly payments of principal and interest. At June 30, 2007, second mortgage loans amounted to $4.8 million, or 3.0% of total loans of the Savings Bank.

During the year ended June 30, 2007, the Savings Bank began offering Home Equity Lines of Credit. Home Equity Lines of Credit have terms of up to ten years and carry an interest rate of prime with a monthly adjustment for those loans that, combined with the first mortgage, result in a loan-to-value ratio of no more than 90%, or a rate of prime plus 1.0% with a monthly adjustment for those loans that, combined with the first mortgage, result in a loan-to-value ratio of greater than 90%. These loans are included with either residential loans, if they have a first lien position, or second mortgages in the various schedules that are part of this report. As June 30, 2007, home equity lines of credit totaled $1.2 million, of which $212,000 was included in the residential loan totals and $1.0 million was included with the second mortgage total.

Land and Commercial Real Estate Loans. The Savings Bank had loans outstanding secured by land and commercial real estate of $49.4 million, or 30.6% of the Savings Bank's gross loan portfolio, at June 30, 2007. The commercial real estate loans originated by the Savings Bank amounted to $40.3 million, or 25.0% of the total loan portfolio, and are primarily located in the Savings Bank's market area. The average size of these loans is $168,000. These loans typically are made with a fixed rate for one to five years and then adjust at least annually, thereafter, based on prime rate or the Constant Maturity Treasury Index ("CMT"). The Savings Bank's commercial real estate portfolio consists of loans on a variety of property types with no large concentrations by property type. The Savings Bank's largest commercial real estate loan at June 30, 2007 was a $2.4 million loan. The loan is for a term of three years and is collateralized by an office building and parking lots located in Springfield, Missouri. At June 30, 2007, the loan was performing according to its repayment terms.

Of primary concern in commercial real estate lending is the feasibility and cash flow potential of the property along with the borrower's creditworthiness and the value of the underlying collateral. Loans secured by income properties are generally larger and involve greater risks than residential mortgage loans because payments on loans secured by income properties are often dependent on successful operation or management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to supply and demand in the market in the type of property securing the loan and therefore, may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, the borrowers' ability to repay the loan may be impaired. Commercial real estate loans also tend to have shorter maturities than residential mortgage loans and may not be fully amortizing, meaning that they may have a significant principal balance or "balloon" payment due on maturity. In addition, commercial real estate properties, particularly industrial properties, are generally subject to relatively greater environmental risks than non-commercial properties and to the corresponding burdens and costs of compliance with environmental laws and regulations. Also, there may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties. For example, tenants may seek the protection of the bankruptcy laws, which could result in termination of lease contracts, reducing cash flow.

At June 30, 2007, the Savings Bank had three loans secured by multi-family residential real estate, totaling approximately $471,000, or .29% of the Savings Bank's gross loan portfolio. At June 30, 2007, all of these loans were performing in accordance with their repayment terms. Multi-family real estate loans are generally originated at 80% of the appraised value of the property or selling price, whichever is less, and carry interest rates that are fixed for 1-5 years and then adjust annually based on the CMT with the principal amortized over 15 to 30 years. Loans secured by multi-family real estate are

generally larger and involve a greater degree of risk than one-to-four family residential loans. In addition, multi-family real estate loans carry risks similar to those associated with commercial real estate lending.

Land loans amounted to $9.1 million, or 5.6% of the gross loan portfolio at June 30, 2007 and are secured primarily by property located in the Savings Bank's primary market area. The Savings Bank's land loans generally are secured by farm land used in beef or dairy operations. Loans secured by farm properties are of particular concern since repayment is dependent upon the successful operation of the farming operations, which is greatly contingent on various factors outside the control of either the borrower or the Savings Bank. These factors include adverse weather conditions, fluctuating market prices of both final product and production costs, factors affecting the physical condition of livestock and government regulations.

Consumer. The Savings Bank's consumer loans consist of automobile loans, recreational vehicles, mobile home loans, savings account loans, and various other consumer loans. At June 30, 2007, the Savings Bank's consumer loans totaled $12.0 million, or 7.44% of the Savings Bank's total loan portfolio. Subject to market conditions, management expects to continue to market and originate consumer loans as part of its strategy to provide a wide range of personal financial services to its depository customer base and as a means to enhance the interest rate sensitivity of the Savings Bank's interest-earning assets and its interest rate spread.

At June 30, 2007, the Savings Bank's loan portfolio secured by automobiles amounted to $4.1 million, or 2.5% of total loans. These loans are originated directly with the borrower with a maximum term of 60 months. The Savings Bank may lend up to 100% of the purchase price of a new automobile or up to the National Automobile Dealers Association published loan value for a used vehicle. The Savings Bank requires all borrowers to maintain automobile insurance, including collision, fire and theft insurance, with the Savings Bank listed as loss payee.

Loans secured by mobile homes at June 30, 2007 were $3.6 million, or 2.2% of total loans. These loans are generally considered to involve relatively higher credit risk as compared with conventional one-to-four family residential mortgage loans because of the typically lower income level and net worth of the borrower, and the greater likelihood of damage, loss or depreciation of the mobile home. The age, size and overall condition of the mobile home are additional factors in the mobile home loan underwriting consideration process.

The Savings Bank's procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the borrower's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, to the proposed loan amount.

Consumer loans are considered a greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciating assets such as automobiles, mobile homes, boats and recreational vehicles. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. Consumer loans may also give rise to claims and defenses by a borrower against an assignee of such loans such as the Savings Bank, and a borrower may be able to assert against the assignee claims and defenses that it has against the seller of the underlying collateral. The largest balance of consumer loans are loans for automobiles,

boats , recreational vehicles, mobile homes and small unsecured loans. At June 30, 2007, none of the Savings Bank's consumer loan portfolio was 90 days or more past due. However, two loans totaling approximately $6,000 were on non-accrual status at June 30, 2007.

Commercial Business Loans. Commercial business loans consist of loans to businesses with no real estate as security, such as business equipment loans, farm equipment loans and cattle loans. As of June 30, 2007, these loans totaled $8.7 million, or 5.39% of the Savings Bank's total loan portfolio. The Savings Bank has, during the past several years, had a number of commercial business loans that become problem loans. See "-- Non-Performing Assets and Delinquencies" and "-- Reserve for Loan Losses" for data on loans originated by the Savings Bank.

At June 30, 2007, the average size of a loan in the commercial business category was $37,000. These loans are typically structured with maturities of five years or less and have variable interest rates based on the prime rate. The largest commercial loan at June 30, 2007 was a line of credit loan to an area family-owned automobile dealership. At June 30, 2007 the balance of this loan was $377,000 and it was classified as a watch credit (see "Asset Classification")at that date because, while the all payments had been made according to terms, other borrower obligations under the loan agreement had not been met.

Commercial business loans may involve greater risk than real estate lending. Because payments on commercial business loans are often dependent on successful operation of the business involved, repayment of such loans may be subject to adverse conditions in the economy and other negative circumstances affecting the business. In recognition of this risk, the Savings Bank attempts to make loans secured by adequate collateral to provide the majority of repayment of the principal balance in the event that business operations are not successful. However, collateral for these types of loans may quickly decline in market value through normal usage and changes in technology, and may fluctuate in value based on the success of the business. In addition, the Savings Bank limits this type of lending to its market area and to borrowers with which it has prior experience or who are otherwise well known to the Savings Bank. The Savings Bank generally requires personal guarantees for commercial business loans.

Non-performing commercial business loans increased significantly between June 30, 2006 and June 30, 2007. This is reflective of the underwriting and credit analysis weaknesses that existed at the time the loans were originated. During fiscal 2007, as required by the Savings Bank's MOU with the OTS, substantial improvements were made in the underwriting, credit analysis, monitoring and follow-up on commercial business loans. No assurance can be given, however, that non-performing business loans will not increase in future periods, whether originated before or after these procedural improvements.

Loan Maturity and Repricing

The following table sets forth scheduled contractual amortization of loans at June 30, 2007 and the dollar amount of such loans at that date which are scheduled to mature after one year and have fixed or adjustable interest rates. Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	Within One Year	After One Year Through Three Years	After Three Years Through Five Years	After Five Years	Total
	(Dollars in thousands)				
Mortgage Loans					
Residential Mortgage	$ 9,812	$ 1,734	$1,280	$ 73,704	$ 86,530
Commercial Real Estate	4,189	6,863	902	28,377	40,331
Land	1,145	219	394	7,337	9,095
Second Mortgage	1,125	339	221	3,143	4,828
Total Mortgage Loans	16,271	9,155	2,797	112,561	140,784
Consumer Loans					
Automobile	354	1,854	1,709	161	4,078
Savings Account	1,332	133	25	14	1,504
Mobile Home	114	96	133	3,246	3,589
Other	765	1,947	108	40	2,860
Total Consumer Loans	2,565	4,030	1,975	3,461	12,031
Commercial Business Loans	4,031	768	1,631	2,270	8,700
Total Loans	$22,867	$13,953	$6,403	$118,292	$161,515

Amount due after 1 year		
Fixed Rate	Adjustable Rate	Total

	(Dollars in thousands)		
Mortgage Loans			
Residential Mortgage	17,216	59,502	76,718
Commercial Real Estate	7,615	28,527	36,142
Land	228	7,722	7,950
Second Mortgage	406	3,297	3,703
Total Mortgage Loans	25,465	99,048	124,513
Consumer Loans			
Automobile	3,724	-	3,724
Savings Account	143	29	172
Mobile Home	366	3,109	3,475
Other	107	1,988	2,095
Total Consumer Loans	4,340	5,126	9,466
Commercial Business Loans	3,117	1,552	4,669
Total Loans	32,922	105,726	138,648

Loan Solicitation and Processing. The Savings Bank's main source of loans is from contact and relationships with real estate agents, referrals from customers, and to a lesser extent walk-in applicants. Once a loan application is received, a credit report, along with verification of income, is obtained. An appraisal of the proposed collateral is then ordered. Real estate appraisals are completed by independent appraisers on all one-to four family loans originated after March 2006 and on all other real estate secured loans. The application is then reviewed by the loan officer and action is taken or loan write-up is presented to the Savings Bank's loan committee if the amount is greater than the loan officer's lending authority.

Commercial and commercial real estate loans are also primarily obtained through referrals or loan officer contacts. While loan officers are delegated reasonable commitment authority based on their qualification, credit decisions on significant commercial loans and commercial real estate loans are made by the loan committee, which is made up of senior loan officers and members of the Board of Directors.

Consumer loans are originated through referrals and existing deposit and loan customers of the Savings Bank. Consumer loan applications below set limits may be processed at branch locations or by loan documentation personnel at the main office.

Loan Originations, Purchases and Sales. During the fiscal year ended June 30, 2007 the Savings Bank opened a loan origination office in Springfield, Missouri. This office primarily originates fixed-rate, single-family loans for sale in the secondary market, as well as, to a lesser extent, [fixed and adjustable rate] single family loans for the Savings Bank's portfolio.

The following table shows total mortgage loans originated sold and repaid during the periods indicated. No loans were purchased during the periods indicated.

	Year Ended June 30,	
	2007	2006
	(In thousands)	
Total gross loans at beginning of year	$148,430	$164,117
Loans originated:		
Secondary market loans	8,900	-
One-to-four family loans	32,176	27,839
Multi-family residential and commercial real estate	24,052	7,715
Land	2,275	2,612
Total mortgage loans originated	67,403	38,166
Other loans:		
Automobile loans	4,005	2,686
Deposit account loans	1,085	1,399
Mobile home loans	203	1,038
Other consumer loans	2,640	815
Total other loans originated	7,933	5,938
Commercial business loans	6,316	3,743
Loans sold:		
Secondary market loans	7,097	-
	7,097	-
Loans principal repayments	60,564	61,008
Other decreases:		
Loans charged-off	373	2,203
Loans transferred to real estate owned	533	323
	906	2,526
Total gross loans at end of year	$161,515	$148,430

Loan Commitments. The Savings Bank issues commitments for one-to-four family residential loans that are honored for up to 60 days from approval. If the commitment expires, it is generally renewed upon request without penalty or expense to the borrower at the current market rate. The Savings Bank had outstanding net loan commitments of $5.1 million at June 30, 2007. See Note 13 of the Notes to the Consolidated Financial Statements contained in the Annual Report to Shareholders filed as Exhibit 13 to this report.

Non-Performing Assets and Delinquencies. The Savings Bank generally institutes collection procedures when a monthly payment is two to four weeks delinquent. A first notice is generally mailed to the borrower, or a phone call is made. If necessary, a second notice follows at the end of the next two week period. In most cases, delinquencies are cured promptly. However, if the Savings Bank is unable to make contact with the borrower to obtain full payment, or, full payment is not possible, and the Savings Bank cannot work out a repayment schedule, a notice to commence foreclosure may be mailed to the borrower. The Savings Bank makes every reasonable effort, however, to work with delinquent borrowers. Understanding that borrowers sometimes cannot make payments because of illness, loss of employment, etc., the Savings Bank will attempt to work with delinquent borrowers who are communicating and cooperating with the Savings Bank.

The Savings Bank generally follows the same collection procedures for non-mortgage loans.

The Savings Bank implemented several new procedures between March 31, 2006 and June 30, 2006 in identifying watch list credits. All loans greater than $50,000 that are 30 days or more past due or loans that have had events occur that raise questions as to the ability of the loan to perform in the future, are added to the watch list. On a quarterly basis, the account officer must complete a write-up on the credit giving an update and outlining the status of the credit and what is expected to remove the credit from the watch list. During fiscal 2007, the procedures for identifying and monitoring watch list credits were developed further, and a more aggressive approach to dealing with such credits was implemented, such as earlier contact with past due borrowers and consistent follow-up on problem loans. Classified assets decreased significantly at June 30, 2007, compared to classified assets at June 30, 2006.

The Board of Directors is informed on a monthly basis as to the status of all mortgage and non-mortgage loans that are delinquent, as well as the status on all loans currently in foreclosure or real estate owned by the Savings Bank through foreclosure.

The table below sets forth the amounts and categories of non-performing assets in the Savings Bank's loan portfolio at the dates indicated. Loans are placed on non-accrual status when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principal is past-due 90 days or more. Any accrued but uncollected interest previously recorded on such loans is reversed in the current period and interest income is subsequently recognized upon collection. The Savings Bank would have recorded interest income on non-accrual loans of $232,000 and $117,000 during the years ended June 30, 2007 and 2006, respectively, if such loans had been performing during such periods.

Non-accrual loans increased from $841,000 at June 30, 2006 to $2.9 million at June 30, 2007. The increase in non-accrual loans was due in large part to five loans involving two borrowers. In one case, there are four loans totaling over $1.6 million where the borrower has filed for protection under the bankruptcy laws. While reorganization was the stated goal in bankruptcy, the situation evolved to the point where liquidation is the most probable outcome. The other loan, with a balance of $512,000 has proceeded to liquidation as well. The allowance for loan losses was increased by $630,000 during the year to cover the anticipated shortfall between the loan balances and the Small Business Administration guarantees and anticipated proceeds from liquidation of both the real estate and other collateral.

The Savings Bank considers all non-accrual loans and loans past due 90 days or more to be impaired. Subsequent to June 30, 2007, none of these loans has, as yet, undergone foreclosure proceedings. These loans are closely monitored and any necessary additional action will be taken as warranted.

One-to-four family loans which are 60 or more days but less than 90 days past due increased during the fiscal year 2007 to $119,000 at June 30, 2007 from $54,000 at June 30, 2006.

17

The following table sets forth information with respect to the Savings Bank's non-performing assets at the dates indicated.

	At June 30,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis					
Real estate:					
Residential	$ 245	$ 322	$ 221	$ 158	$ -
Commercial	2,171	306	1,112	386	176
Commercial business	467	65	1,502	1,224	-
Consumer	6	148	19	44	-
Total	$2,889	$ 841	$2,854	$1,812	$ 176
Accruing loans which are contractually past due 90 days or more:					
Real estate:					
Residential	$ 278	$ -	$ 63	$ 555	$ 640
Commercial	81	-	30	142	893
Commercial business	-	-	-	-	27
Consumer	-	3	55	13	214
Total	$ 359	$ 3	$ 148	$ 710	$1,774
Total of non-accrual and 90 days past due loans	$3,248	$ 844	$3,002	$2,522	$1,950
Real estate owned	291	497	340	174	282
Other non-performing assets:					
Impaired loans not past due	-	-	2,004	-	1,368
Slow home loans (60 to 90 days past due)	-	-	450	430	1,173
Total non-performing assets	$3,539	$1,341	$5,796	$3,126	$4,773

Total loans delinquent 90 days or more to net loans	0.23%	0.59%	1.90%	1.52%	1.10%
Total loans delinquent 90 days or more to total consolidated assets	0.15%	0.37%	1.23%	0.95%	0.73%
Total non-performing assets to total consolidated assets	1.47%	0.59%	2.39%	1.18%	1.78%

As of June 30, 2007, the Savings Bank had loans with an aggregate outstanding balance of $4.3 million with respect to which known information concerning possible credit problems with the borrowers or the cash flows of the properties securing the respective loans has caused management to be concerned about the ability of the borrowers to comply with present loan repayment terms, which may result in the future inclusion of such loans in the non-accrual loan category. These loans are reflected in the Savings Bank's classified assets, discussed below. In addition, the Savings Bank has identified an additional $4.8 million of loans on its internal watch list (discussed below) to review quarterly for any deterioration in their capacity to perform as agreed. The $4.8 million of watch list credits includes $3.0 million, $805,000, $989,000 and $96,000 of commercial real estate, commercial business, one-to-four family and consumer loans, respectively.

Asset Classification. OTS regulations require that each insured savings institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. An asset is classified substandard when it is inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. Assets so classified must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not

18

corrected. The Savings Bank's policy is to classify as substandard, for example, any loan, irrespective of payment record or collateral value, when a bankruptcy filing occurs, the pay record becomes erratic (e.g., the borrower misses several monthly payments, but makes double payments in the future), or a loan becomes contractually delinquent by three monthly payments. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified loss, the insured institution must either establish specific allowances for loan losses for the full amount of the portion of the asset classified as loss or charge-off such amount. All or a portion of general loan loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital.

At June 30, 2007 and 2006 the aggregate amounts of the Savings Bank's classified assets as determined by the Savings Bank, and of the Savings Bank's general and specific loss allowances and charge-offs, were as follows:

	At June 30, 2007	At June 30, 2006
	(In thousands)	
Loss	$ -	$ -
Doubtful	101	686
Substandard assets	4,176	5,898
Sub total	4,277	6,584
Special mention	-	1,681
Total classified assets	4,277	8,265
Total watch list credits	4,843	-
Total loans of concern	$9,120	$8,265
General loss allowances	$1,795	$2,348
Specific loss allowances	897	126
Total loss allowances	$2,692	$2,474
Net charge-offs	$ 208	$1,897

The $1.7 million decrease in substandard assets to $4.2 million at June 30, 2007 from $5.9 million at June 30, 2006, was the result of significant improvement in the process and procedures utilized to follow-up on problem credits, earlier recognition of potential problems with credits and a more aggressive approach in dealing with those problems.

At June 30, 2007, the Savings Bank's largest substandard loans to one borrower consisted of four loans to an individual and related interests with a collective outstanding balance of $1.6 million. At June 30, 2007, these loans were all past due at least seven months. The loans are collateralized by first deeds of trust on real estate and a security interest in equipment and inventory. The borrower and the related interests have all filed for protection under the bankruptcy laws and it appears that the collateral will be liquidated. Two of the loans totaling almost $1.4 million have a 75% guarantee through the SBA, and loss reserves have been established for the Savings Bank's portion of the anticipated shortfall from liquidation.

The Savings Bank no longer uses a "special mention" category in its internal loan classification process. Instead, a category titled 'watch' is used by the Savings Bank to monitor loans which are not typical in their repayment terms, collateral, or a situation with the borrower that may create repayment difficulties in the future. Loans are designated as watch when the ability to meet current payment schedules is questionable, even though interest and principle are still being paid as agreed.

Real Estate Owned

Real estate owned includes real estate acquired in the settlement of loans, which is recorded at the lower of the remaining loan balance or estimated fair value less the estimated costs to sell the asset. Any write down at the time of foreclosure is charged against the allowance for loan losses. Subsequently, net expenses related to holding the property and declines in the market value are charged against income. At June 30, 2007, real estate owned consisted of six properties with a net book value of $292,000 and other repossessed assets with a net book value of $1,000 on the books. At June 30, 2006, five properties were held as real estate owned with a total value of $497,000.

Allowance for Loan Losses

Management recognizes that loan losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio.

Management believes that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period. This may require management to make assumptions about losses on loans; and the impact of a sudden large loss could deplete the allowance and potentially require increased provisions to replenish the allowance, which would negatively affect earnings.

The allowance for loan losses is evaluated on a monthly basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions, such as unemployment rates, bankruptcies and vacancy rates of business and residential properties. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries.

The Savings Bank had an allowance for loan losses at June 30, 2007 and 2006 of $2.7 million and $2.5 million, respectively. The Savings Bank began experiencing an increase in problem loans during fiscal year 2005. This increase required a significant increase in the allowance for loan losses. At June 30, 2005 the allowance for loan losses was $2.9 million, or 1.7%, of gross loans compared to $2.5 million, or 1.7%, of gross loans at June 30, 2006. The allowance for loan losses was $2.7 million, or 1.7%, of gross loans at June 30, 2007.

Management believes that the allowance for loan losses was adequate at June 30, 2007 to absorb the known and inherent risks of loss in the loan portfolio at that date. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased

provisions that may be required will not adversely impact our financial condition and results of operations. In addition, the determination of the amount of the Savings Bank's allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional provision based upon their judgment of information available to them at the time of their examination. Any material increase in the allowance may adversely affect the Savings Bank's financial condition and earnings.

The following table sets forth an analysis of the Savings Bank's allowance for loan losses for the periods indicated.

	At June 30,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Allowance at beginning of period	$2,474	$2,851	$1,240	$1,144	$ 884
Provision for loan losses	426	1,520	2,333	340	427
Recoveries:					
Residential real estate	24	5	1	9	7
Commercial real estate	8	-	9	-	-
Consumer	37	48	62	79	53
Commercial business	96	50	15	14	-
Total recoveries	165	103	87	102	60
Charge-offs:					
Residential real estate	169	26	110	41	44
Commercial real estate	94	99	77	127	18
Consumer	32	223	415	147	165
Commercial business	78	1,663	207	31	-
Total charge-offs	373	2,000	809	346	227
Net charge-offs	208	1,897	722	244	167
Allowance at end of period	$2,692	$2,474	$2,851	$1,240	$1,144
Ratio of allowance to total loans outstanding at the end of the period	1.59%	1.67%	0.46%	0.73%	0.63%
Ratio of net charge offs to average loans outstanding during the period	0.14%	1.29%	0.10%	0.14%	0.09%

The following table sets forth the breakdown of the allowance for loan losses by loan category as of the dates indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other categories.

Allowance for Loan Losses by Category

	At June 30,							
	2007			2006			2005	
	Amount	Percent Of Out-Standing Loans in Category	Percent Of Gross Loans in Category To Gross Loans	Amount	Percent Of Out-Standing Loans in Category	Percent Of Gross Loans in Category To Gross Loans	Amount	Percent Of Out-Standing Loans in Category
	(Dollars in thousands)							
Real estate -- mortgage:								
Residential	$ 164	0.19%	53.58%	$ 222	0.27%	55.59%	$ 217	0.24%
Commercial	1,567	3.89	24.97	726	1.96	24.99	759	1.83
Land	119	1.31	5.63	25	0.31	5.36	26	0.28
Second mortgage loans	60	1.24	2.99	31	0.86	2.47	32	0.76
Consumer	239	1.99	7.44	82	0.95	5.84	177	1.82
Commercial business	543	6.24	5.39	1,388	16.27	5.75	1,640	16.30
Total allowance for loan losses	$2,692	1.59%	100.00%	$2,474	1.67%	100.00%	$2,851	1.74%

	At June 30,					
	2004			2003		
	Amount	Percent Of Out-Standing Loans in Category	Percent Of Gross Loans in Category To Gross Loans	Amount	Percent Of Out-Standing Loans in Category	Percent Of Gross Loans in Category To Gross Loans
	(Dollars in thousands)					
Real estate --						

mortgage:						
Residential	$ 283	0.30%	56.21%	$ 287	0.28%	57.64%
Commercial	337	0.84	23.70	302	0.73	22.87
Land	31	0.34	5.32	26	0.26	5.50
Second mortgage loans	20	0.52	2.29	33	0.71	2.60
Consumer	240	2.22	6.38	182	1.61	6.30
Commercial business	329	3.18	6.10	314	3.43	5.09
Total allowance for loan losses	$1,240	0.73%	100.00%	$1,144	0.64%	100.00%

Securities Activity

Savings and loan associations have authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various Federal agencies and of state and municipal governments, deposits at the FHLB-Des Moines, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Subject to various restrictions, savings institutions may also invest a portion of their assets in commercial paper, corporate debt securities and mutual funds, the assets of which conform to the investments that federally chartered savings institutions are otherwise authorized to make directly. Savings institutions are also required to maintain minimum levels of liquid assets which vary from time to time. See "REGULATION OF FIRST HOME -- Federal Home Loan Bank System." The Savings Bank may decide to increase its liquidity above the required levels depending upon the availability of funds and comparative yields on securities in relation to return on loans.

Routine short-term investment decisions, which are reported monthly to the Board of Directors, are made by the President and Chief Executive Officer and Chief Financial Officer, who act within policies established by the Board. Those securities include federally insured certificates of deposit, FHLB time obligations, bankers acceptances, treasury obligations, U.S. Government agency obligations, mortgage-backed securities, bank qualifying municipal tax exempt bonds, and corporate bonds. Securities not within the parameters of the policies require prior Board approval. Securities are purchased for investment purposes. The goals of the Savings Bank's investment policy are to select securities based on safety first, flexibility second and diversification third. In addition, as a result of the concern with interest rate risk exposure, there has been a focus on short-term investments. At June 30, 2007, the Company's and the Savings Bank's securities portfolio totaled $43.7 million (of which $31.3 million were available for sale) and consisted primarily of federal agency obligations securities, federal agency mortgage-backed securities, common stocks, and municipal bonds. For further information concerning the Savings Bank's securities portfolio, see Note 2 of the Notes to the Consolidated Financial Statements included in the Annual Report.

Securities Analysis

The following table sets forth the Company's and the Savings Bank's securities portfolio at carrying value at the dates indicated. Securities that are held-to-maturity are shown at amortized cost, and securities that are available-for-sale are shown at the current market value.

	At June 30, 2007		2006		2005	
	Book Value (1)	Percent Of Portfolio	Book Value (1)	Percent Of Portfolio	Book Value (1)	Percent Of Portfolio
	(Dollars in thousands)					
Debt securities:						
United States Government and Federal agencies Obligations	$13,460	30.79%	$23,564	56.50%	$26,426	58.72%
Obligations of state and political subdivisions	3,510	8.03	3,782	9.07	3,431	7.62
Federal agency mortgage-backed securities	24,856	56.85	10,451	25.06	10,792	23.98
Total debt securities	41,826	95.67	37,797	90.63	40,649	90.32
Equity securities:						
FHLB stock	1,614	3.69	1,612	3.87	1,904	4.23
Other	281	0.64	2,297	5.51	2,454	5.45
Total equity securities	1,895	4.33	3,909	9.37	4,358	9.68
Total investment securities	$43,721	100.00%	$41,706	100.00%	$45,007	100.00%

----

(1) The market value of the Company's and the Savings Bank's investment securities portfolio amounted to $43.5 million, $41.3 million, and $44.9 million at June 30, 2007, 2006 and 2005, respectively. At June 30, 2007, the market value of the principal component of the Company's and the Savings Bank investment securities portfolio which were federal agencies mortgage-backed securities was $24.7 million.

The following table sets forth the maturities and weighted average yields of the debt securities in the Company's and the Savings Bank's investment securities portfolio at June 30, 2007.

One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		Afte
Amount	Yield	Amount	Yield	Amount	Yield	Amou

(Dollars in thousands)

United States Government and Federal Agencies obligations	$5,799	4.28%	$5,724	4.78%	$ 937	4.91%	$ 1,
Obligations of state and political subdivisions	350	3.52	2,132	3.81	1,028	4.53	
Mortgage-backed securities	-	-	4,387	5.36	5,843	5.14	14,
Total loans	$6,149		$12,243		$7,808		$15,

At June 30, 2007, the Savings Bank held no security which had an aggregate book value in excess of 10% of the Company's stockholders' equity.

To supplement lending activities in periods of deposit growth and/or declining loan demand, the Savings Bank has invested in residential mortgage-backed securities. Although such securities are held for investment, they can serve as collateral for borrowings and, through repayments, as a source of liquidity. For information regarding the carrying and market values of the Savings Bank's mortgage-backed securities portfolio, see Note 2 of the Notes to Consolidated Financial Statements included in the Annual Report. The Savings Bank has invested in federal agency securities issued by FHLMC, FNMA and Government National Mortgage Association ("GNMA"). As of June 30, 2007, 3.6% of the outstanding balance of the mortgage-backed securities had adjustable rates of interest that adjust within the next two years. As of June 30, 2007, the Savings Bank's portfolio included $24.9 million of mortgage-backed securities purchased as investments to supplement the Savings Bank's mortgage lending activities.

The FHLMC, FNMA and GNMA certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, one-to-four family residential mortgages issued by these government-sponsored entities. As a result, the interest rate risk characteristics of the underlying pool of mortgages, such as fixed- or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. FHLMC and FNMA provide the certificate holder a guarantee of timely payments of interest and ultimate collection of principal, whether or not they have been collected. GNMA's guarantee to the holder of timely payments of principal and interest is backed by the full faith and credit of the U.S. government. Mortgage-backed securities generally yield less than the loans that underlie such securities, because of the cost of payment guarantees or credit enhancements that reduce credit risk. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize obligations of the Savings Bank.

The Savings Bank has incorporated into its investment policy the regulatory requirements set forth in the OTS Thrift Bulletin 52, which addresses the selection of securities dealers, securities policies, unsuitable investment practices and mortgage derivative products. At June 30, 2007, the Savings Bank owned no mortgage derivative products.

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major source of the Savings Bank's funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer term basis for general business purposes.

Deposit Accounts. Deposits are attracted from within the Savings Bank's primary market area through the offering of a broad selection of deposit instruments, including negotiable order of withdrawal ("NOW") accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Savings Bank considers the rates offered by its competition, profitability to the Savings Bank, matching deposit and loan products and its customer preferences and concerns. The Savings Bank generally reviews its deposit mix and pricing at least weekly, and adjusts it as necessitated by liquidity needs, the interest rate sensitivity gap position (which is the extent to which interest earning assets repricing during a specified time period exceed interest bearing liabilities repricing during the same time period, or vice versa) and competition.

On an overall basis, the Savings Bank experienced deposit growth during the year ended June 30,2007. This was due to the introduction of a money market savings account late in calendar 2006, which attracted approximately $36.3 million in funds by June 30, 2007, of which approximately 50% came from existing accounts and approximately 50% was new money. However, the growth in the new product was substantially offset by decreases in regular savings accounts, interest-bearing checking accounts and certificates of deposit during the year. During the fiscal year ended June 30, 2007, with the exception of the money market saving product, the rates paid by the Savings Bank were at about the mid-point of the range of rates offered by competitors in each type and maturity of account. Prior to September 2006, the rates on the Savings Bank's deposit accounts were tended to be at the lower end of the range of rates paid by area financial institutions in each type and maturity of account.

The following table sets forth information concerning the Savings Bank's time deposits and other interest-bearing deposits at June 30, 2007.

Weighted Average Interest	Minimum	Percentage of Total

Rate	Term	Category	Amount	Balance	Deposits
				(Dollars in thousands)	
0.00%	None	Non-interest bearing	$ 100	12,716	6.69%
1.07%	None	NOW accounts	100	31,808	16.72
2.30%	None	Super Saver accounts	1,000	13,375	7.04
1.50%	None	Savings accounts	25	12,609	6.63
5.04%	None	Money Market Savings	10,000	36,286	19.09
		Certificates of deposit			
3.67%	3 months	Fixed term, fixed rate	500	595	0.31
4.90%	6 months	Fixed term, fixed rate	500	12,391	6.52
5.22%	9 months	Fixed term, fixed rate	500	2,601	1.37
4.87%	12 months	Fixed term, fixed rate	500	14,995	7.89
4.12%	15 months	Fixed term, fixed rate	500	593	0.31
4.60%	18 months	Fixed term, fixed rate	500	924	0.49
4.48%	24 months	Fixed term, fixed rate	500	2,757	1.45
3.78%	30 months	Fixed term, fixed rate	500	772	0.41
3.99%	36 months	Fixed term, fixed rate	500	1,079	0.57
3.95%	48 months	Fixed term, fixed rate	500	572	.030
4.00%	60 months	Fixed term, fixed rate	500	2,450	1.29
3.90%	72 months	Fixed term, fixed rate	500	10	0.01
5.22%	120 months	Fixed term, fixed rate	500	21	0.01
Various	Various	Fixed term, adjustable rate	500	20,987	11.04
Various	Various	Jumbo certificates	100,000	22,549	11.86
				190,090	100.00%

The following table indicates the amount of the Savings Bank's jumbo certificates of deposit by time remaining until maturity as of June 30, 2007. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are negotiable.

Jumbo

Maturity Period	Certificates Of Deposit
	(In thousands)
Three months or less	$ 5,220
After three through six months	4,922
After six through twelve months	6,822
After twelve months	5,585
Total	$22,549

Time Deposits by Rates

The following table sets forth the time deposits in the Savings Bank classified by rates as of the dates indicated.

	At June 30, 2007	At June 30, 2006
	(In thousands)	
0.00 - 1.49%	$ -	$ 18
1.50 - 2.49%	90	1,217
2.50 - 3.49%	1,891	9,610
3.50 - 4.49%	6,236	37,985
4.50 - 5.00%	58,156	42,106
5.01 5.49%	16,430	39
5.50 - 6.49%	493	236
6.50 - 7.49%	-	-
Over 7.49%	-	-
Total	$83,296	$91,211

The following table sets forth the amount and maturities of time deposits at June 30, 2007.

	Amount Due						
	One Year Or less	More than One Year thru 2 Years	More than 2 Years thru 3 Years	More than 3 Years thru 4 Years	After 4 Years	Total	Percent of Total Certificate Accounts
			(In thousands)				
0.00 - 1.49%	-	-	-	-	-	-	-%
1.50 - 2.49%	90	-	-	-	-	90	0.11
2.50 - 3.49%	1,028	699	164	-	-	1,891	2.27
3.50 - 4.49%	4,739	753	656	54	34	6,236	7.49
4.50 - 5.00%	36,469	12,519	5,207	3,781	180	58,156	69.82
5.01 5.49%	15,168	815	100	214	133	16,430	19.72
5.50 - 6.49%	298	119	76	-	-	493	0.59
6.50 - 7.49%	-	-	-	-	-	-	-
Over 7.49%	-	-	-	-	-	-	-
Total	$57,792	$14,905	$6,203	$4,049	$347	$83,296	100,00%

Deposit Flow

The following table sets forth the balances of savings deposits in the various types of savings accounts offered by the Savings Bank at the dates indicated.

	At June 30,					
	2007			2006		
	Amount	Percent Of Total	Increase (Decrease)	Amount	Percent Of Total	Increase (Decrease)
	(Dollars in thousands)					
Non-interest bearing	$ 12,716	6.69%	$ (29)	$ 12,745	7.11%	$ 929
NOW checking	31,808	16.73	(3,071)	34,879	19.47	(3,359)
Regular savings accounts	12,609	6.63	(10,811)	23,420	13.08	(6,454)
Super Saver accounts	13,375	7.04	(3,511)	16,886	9.43	(698)
Money Market savings accounts	36,286	19.08	36,286			
Fixed-rate certificates which mature (1):						
Within 1 year	50,270	26.45	(916)	51,186	28.57	2,825
After 1 year, but Within 2 years	3,763	1.98	(1,757)	5,520	3.08	1,158
After 2 years, but Within 5 years	2,310	1.22	(984)	3,294	1.84	(1,857)
Adjustable-rate certificates	26,953	14.18	(4,258)	31,211	17.42	(546)
Total certificates	83,296	43.83	(7,915)	91,211	50.91	1,580
Total	$190,090	100.00%	10,949	$179,141	100.00%	$(8,002)

----

(1) At June 30, 2007 and 2006, jumbo certificates of deposit amounted to $22.5 million and $24.2 million, respectively, and IRAs amounted to $23.0 million and $24.7 million at those dates, respectively.

The following table sets forth the savings activities of the Savings Bank for the periods indicated.

	Years Ended June 30,	
	2007	2006
	(In thousands)	
Beginning balance	$179,141	$187,143
Net increase (decrease) before interest credited	5,000	(12,245)
Interest credited	5,949	4,243

Net increase/(decrease) in savings deposits	10,949	(8,002)
Ending balance	$190,090	$179,141

In the unlikely event the Savings Bank is liquidated, depositors will be entitled to full payment of their deposit accounts prior to any payment being made to the Company, as sole stockholder of the Savings Bank. Substantially all of the Savings Bank's depositors are residents of the State of Missouri.

Retail Repurchase Agreements. In December 2006, the Savings Bank began to offer retail repurchase agreements. This was done to provide an additional product for its existing customer base and to attract new customers who would find the product beneficial. Customers with large balances in checking accounts benefit by having those balances which exceed a predetermined level "swept" out of the checking account and into a retail repurchase account. The repurchase account earns interest at a floating market rate and is uninsured. However, the balance is collateralized by designated investment securities of the Savings Bank. At June 30, 2007, the balances of retail repurchase agreements totaled $2.1 million.

Borrowings. Savings deposits are the primary source of funds for the Savings Bank's lending and investment activities and for its general business purposes. The Savings Bank also relies on advances from the FHLB-Des Moines to supply funds and to act as a source of liquidity, if needed. The FHLB-Des Moines has served as the Savings Bank's primary borrowing source. Advances from the FHLB-Des Moines are typically secured by the Savings Bank's first mortgage loans. These advances require monthly payments of interest only with principal due at maturity and have fixed rates. These advances were obtained in response to the Savings Bank's previous strong loan demand and limited deposit growth experienced during fiscal years 2001 and 2000. At June 30, 2007, the Savings Bank had $22.0 million in advances from the FHLB-Des Moines.

The following tables set forth certain information concerning the Savings Bank's borrowings at the dates and for the periods indicated.

	At June 30,		
	2007	2006	2005
Weighted average rate paid on FHLB advances	5.75%	5.74%	5.50%

	Years Ended June 30,		
	2007	2006	2005
	(Dollars in thousands)		
Maximum amounts of FHLB advances outstanding at any month end	$25,000	$28,394	$29,121
Approximate average FHLB advances Outstanding	24,077	27,653	29,111
Approximate average effective rate			

paid on FHLB advances	5.76%	5.59	5.59%

The FHLB-Des Moines functions as a central reserve bank providing credit for savings and loan associations and other member financial institutions. As a member, the Savings Bank is required to own capital stock in the FHLB-Des Moines and is authorized to apply for advances on the security of such stock and certain of its mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's retained earnings or on the FHLB's assessment of the institution's creditworthiness. The FHLB-Des Moines determines specific lines of credit for each member institution. Because of their prepayment penalties, it is not currently economical to prepay any of these advances prior to maturity.

Subsidiary Activities

Fybar Service Corporation ("Fybar") is a Missouri corporation wholly-owned by the Savings Bank. Until May 2007, Fybar owned five rental properties. In May, the properties were transferred to the Company. The transfer of the real estate was done to comply with one of the requirements of the MOU, specifically that Fybar either divest itself of its real estate holdings or apply for an exception from the FDIC. See "-Corporate Developments and Overview." Management believes that the transfer to the Company was the best and most expeditious way to meet the MOU requirement. The transfer was done at the net book value on Fybar's books. The Company took title to the properties, assumed the mortgage obligation to the Savings Bank, paid a portion of the difference between the net book value of the real estate and the balance of the mortgage in cash and executed a note payable to Fybar for the remainder of the difference.

Fybar serves as Trustee on all the Savings Bank's deeds of trust, is a registered agent and receives limited income from credit life and accident and health policies written in conjunction with the Savings Bank's loans.

At June 30, 2007, the Savings Bank had an investment in Fybar of $576,000.

First Home Investments, Inc. is a wholly-owned subsidiary of the Savings Bank that offered fixed and variable annuities as well as mutual funds to its customers and members of the general public. First Home Investments, Inc. also processed stock and bond trades and provided credit life, disability and health insurance services to the Savings Bank's customers as well as group and individual coverages. In August 2007, First Home Investments ceased operations, and the Savings Bank decided to enter into an agreement with an outside party to provide investments services to its customer base.

REGULATION OF FIRST HOME

As a Missouri-chartered and federally insured savings and loan association, First Home is subject to extensive regulation. Lending activities and other investments must comply with various statutory and regulatory capital requirements. The Savings Bank is regularly examined by its state and federal regulators and files periodic reports concerning the Savings Bank's activities and financial condition. The Savings Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal and state laws, especially in such matters as the ownership of savings accounts and the form and content of the Savings Bank's mortgage documents.

Missouri Savings and Loan Law

General. As a Missouri-chartered savings and loan association, First Home derives its authority from, and is governed by, the provisions of the Missouri Savings and Loan Law ("Missouri Law") and regulations of the Missouri Division of Finance ("Division"). The Director of the Missouri Division of Finance ("Director") proposes regulations which must then be approved, amended, modified or disapproved by the State Savings and Loan Commission ("Commission"). Missouri Law and the resulting regulations are administered by the Director.

Investments and Accounts. Missouri Law and regulations impose restrictions on the types of investments and loans that may be made by a Missouri-chartered institution, generally bringing these restrictions into parity with the regulation of federally chartered institutions. The manner of establishing accounts and evidencing the same is prescribed, as are the obligations of the institution with respect to withdrawals from accounts and redemption of accounts. The Director may also impose or grant the same restrictions, duties and powers concerning deposits as are applicable to federal institutions under federal rules and regulations.

Branch Offices. Under Missouri Law, no institution may establish a branch office or agency without the prior written approval of the Director. The Director reviews the proposed location, the functions to be performed at the office, the estimated volume of business, the estimated annual expense of the office and the mode of payments. Decisions of the Director may be appealed to the Commission. The relocation or closing of any office is subject to additional regulation and in certain circumstances may require prior approval.

Merger or Consolidation. Missouri Law permits the merger or consolidation of savings institutions, subject to the approval by the Director, when the Director finds that such merger or consolidation is equitable to the members or account holders of the institutions and will not impair the usefulness and success of other properly conducted institutions in the community. Mergers or consolidations of mutual institutions must also be approved by a majority of the members of each institution. Stock institutions must obtain shareholder approval pursuant to the Missouri statutes relating to general and business corporations.

Holding Companies. Missouri Law requires a savings and loan holding company and its subsidiaries to register with the Director within 60 days of becoming a savings and loan holding company. Following registration it is subject to examination by the Division and thereafter must file certain reports

with the Director. A savings and loan holding company may acquire control of an institution of another savings and loan holding company upon application and prior written approval of the Director. The Director, in reviewing the application, must determine if such acquisition is consistent with the interests of maintaining a sound financial system and that the acquisition does not afford a basis for supervisory objection.

Examination. Periodic reports to the Division must be made by each Missouri-chartered institution. The Division conducts and supervises the examination of state-chartered institutions.

Supervision. The Director has general supervisory authority over Missouri-chartered institutions and upon the Director's finding that an institution is violating the provisions of its articles of incorporation, its bylaws or any law of the state, or is conducting business in an unsafe or injurious manner, the Director may order the institution to discontinue such violation or practice, and to conform with all the requirements of law. The Director may demand and take possession of the institution, if the institution fails to comply with the Director's order, if the Director determines that the institution is insolvent, in an unsafe condition or conducting business in an unsafe manner, or if the institution refuses to submit to examination or inspection by the Division.

Federal Regulation of Savings Banks

Office of Thrift Supervision. The OTS is an office in the Department of the Treasury subject to the general oversight of the Secretary of the Treasury. Among other functions, the OTS issues and enforces regulations affecting federally-insured savings associations and regularly examines these institutions.

The OTS has extensive authority over the operations of all insured savings associations. As part of this authority, First Home is required to file periodic reports with the OTS District Director and is subject to periodic examinations by the OTS and the FDIC. The OTS and FDIC have extensive discretion in their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in these policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company.

The OTS has established a schedule for the assessment of fees upon all savings associations to fund the operations of the OTS. A schedule of fees has also been established for the various types of applications and filings made by savings associations with the OTS. The general assessment, to be paid on a semi-annual basis, is determined based upon the savings association's total assets, including consolidated subsidiaries, as reported in the association's latest quarterly thrift financial report. For the first half of 2007, the Savings Bank's assessment under the semi-annual assessment procedure was $49,727. Based on the current assessment rates published by the OTS and First Home's total assets of approximately $239.9 million at March 31, 2007, First Home will be required to pay a semi-annual assessment of $51,831 for the second half of calendar year 2007.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan. In this regard, the Savings Bank entered into a memorandum of understanding with the OTS in December 2006. See "-Corporate Developments and Overview."

Federal Deposit Insurance Reform Act of 2005. The Federal Deposit Insurance Reform Act of 2005 ("Reform Act") was signed into law on February 8, 2006 and amended current laws regarding the federal deposit insurance system.

Pursuant to the Reform Act, the FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund into one deposit insurance fund, the DIF, on March 31, 2006. The new legislation also abolished the prior minimum 1.25% reserve ratio and the mandatory assessments when the ratio falls below 1.25%. Under the Reform Act, the FDIC, at the beginning of each year, has the flexibility to adjust the DIF's reserve ratio between 1.15% and 1.50% depending upon a variety of factors, including projected losses, economic considerations and assessment rates.

Pursuant to the Reform Act, effective April 1, 2006, deposit insurance coverage limits were increased from $100,000 to $250,000 for certain types of Individual Retirement Accounts, 401(k) plans and other retirement savings accounts, including Keogh accounts and "457 plan" accounts, among others. The current $100,000 limit continues to apply to individual accounts and municipal deposits; however, the Reform Act authorizes the FDIC to review all levels of insurance coverage every five years beginning in 2011, and index such insurance coverage to inflation. Additionally, under the Reform Act, undercapitalized financial institutions are restricted from accepting employee benefit plan deposits. Certain one-time deposit premium assessment credits are also authorized under the Reform Act, and regulations related to the allotment of such credits have recently been issued by the FDIC. To date, however, the credit program has not been finalized and the credits will not be rebated but instead may be applied against premiums at any time, subject to limited exceptions.

Insurance of Accounts and Regulation by the FDIC. The Savings Bank is a member of the Deposit Insurance Fund (the "DIF"), which is administered by the FDIC. The FDIC insures deposits up to the applicable limits and this insurance is backed by the full faith and credit of the United States government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premiums while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premiums. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period. The Reform Act authorizes the FDIC to revise its current risk-based system, subject to public notice and comment, although no deadline was given by Congress for the creation or implementation of such regulations.

DIF-insured institutions are required to pay a Financing Corporation (FICO) assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the quarter ended June 30, 2006, the FICO assessment was equal to 1.28 basis points for each $100 in domestic deposits. These assessments, which may be revised based upon the level of DIF deposits, will continue until the bonds mature in the years 2017 through 2019.

Federal Home Loan Bank System. The FHLB System, consisting of 12 FHLBs, is under the jurisdiction of the Federal Housing Finance Board ("FHFB"). The designated duties of the FHFB are to: supervise the FHLBs; ensure that the FHLBs carry out their housing finance mission; ensure that the FHLBs remain adequately capitalized and able to raise funds in the capital markets; and ensure that the FHLBs operate in a safe and sound manner.

First Home, as a member of the FHLB-Des Moines, is required to acquire and hold shares of capital stock in the FHLB-Des Moines equal to the greater of (i) 1.0% of the aggregate outstanding principal amount of residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or (ii) 1/20 of its advances (borrowings) from the FHLB-Des Moines. First Home complied with this requirement with an investment in FHLB-Des Moines stock of $1.6 million at June 30, 2007.

Among other benefits, the FHLB provides a central credit facility primarily for member institutions. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the FHFB and the Board of Directors of the FHLB-Des Moines. At June 30, 2007, the Savings Bank had $22.0 million of advances from the FHLB-Des Moines.

The FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future.

Prompt Corrective Action. The OTS is required to take certain supervisory actions against undercapitalized savings associations, the severity of which depends upon the institution's degree of under-capitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 1.5% is deemed to be "critically undercapitalized."

At June 30, 2007, First Home was a "well capitalized" institution under the prompt corrective action regulations of the OTS.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits ("Guidelines"). The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that the Savings Bank fails to meet any standard prescribed by the Guidelines, ot may require the Savings Bank to submit an acceptable plan to achieve compliance with the standard. Management is aware of no conditions relating to these safety and soundness standards which would require submission of a plan of compliance.

Qualified Thrift Lender Test. All savings associations, including First Home, are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio asset, as defined by regulation, in

qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings association may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Code. Under either test, such assets primarily consist of residential housing related loans and investments. At June 30, 2007, First Home met the test and its qualified thrift lender percentage was 66.74%.

Any savings association that fails to meet the qualified thrift lender test must convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of June 30, 2007, the Savings Bank met the qualified thrift lender test.

Capital Requirements. The OTS's capital regulations require federal savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At June 30, 2007, the Bank met each of these capital requirements.

The following table presents the Savings Bank's capital levels as of June 30, 2007.

	At June 30, 2007	
	Amount	Percent of Assets
	(Dollars in thousands)	
Tangible capital	$24,199	10.1%
Minimum required tangible capital	3,591	1.5
Excess	$20,608	8.6%
Core capital	$24,199	10.1%
Minimum required core capital	9,576	4.0
Excess	$14,623	6.1%
Risk-based capital	$26,078	17.1%
Minimum risk-based capital requirement	12,179	8.0
Excess	$13,899	9.1%

Limitations on Capital Distributions. OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account.

Generally, savings institutions, such as the Savings Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. The Savings Bank may pay dividends in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the OTS prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns.

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. Generally, this limit is 15% of the Savings Bank's unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus, if such loan is secured by specified readily-marketable collateral. The OTS by regulation has amended the loans to one borrower rule to permit savings associations meeting certain requirements, including capital requirements, to extend loans to one borrower in additional amounts under circumstances limited essentially to loans to develop or complete residential housing units. At June 30, 2007, the Savings Bank's largest loan outstanding to any one borrower, including related entities, was $2.9 million, of which $1.2 million was unfunded. This amount is a single loan secured by a subdivision development in Springfield, Missouri. This loan was performing in accordance with its repayment terms at that date.

Activities of Savings Associations and Their Subsidiaries. When a savings association establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the associations controls, the savings association shall notify the FDIC and the OTS 30 days in advance and provide the information each agency may, by regulation, require. Savings associations also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings association of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIA. Based upon that determination, the FDIC or the OTS has the authority to order the savings association to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the SAIF. If so, it may require that no SAIF member engage in that activity directly.

Accounting and Regulatory Standards. An OTS policy statement applicable to all savings associations clarifies and re-emphasizes that the investment activities of a savings association must be in compliance with approved and documented investment policies and strategies, and must be accounted for in accordance with generally accepted accounting principles (GAAP). Under the policy statement, management must support its classification of an accounting for loans and securities (i.e., whether held for investment, sale or trading) with appropriate documentation. First Home is in compliance with these amended rules.

The OTS has adopted an amendment to its accounting regulations, which may be made more stringent than generally accepted accounting principles by the OTS, to require that transactions be reported in a manner that best reflects their underlying economic substance and inherent risk and that financial reports must incorporate any other accounting regulations or orders prescribed by the OTS.

Investment Portfolio Policy. OTS supervisory policy requires that securities owned by thrift institutions must be classified and reported in accordance with GAAP which establishes three classifications of investment securities: held-to-maturity, trading and available-for-sale. Trading securities are acquired principally for the purpose of near term sales. Such securities are reported at fair value and unrealized gains and losses are included in income.

Securities which are designated as held-to-maturity are designated as such because the investor has the ability to hold these securities to maturity. Such securities are reported at amortized cost.

All other securities are designated as available-for-sale, a designation which provides the investor with certain flexibility in managing its investment portfolio. Such securities are reported at fair value; net unrealized gains and losses are excluded from income and reported net of applicable income taxes as a separate component of stockholders' equity. The Savings Bank has adopted a reporting policy that complies with these OTS requirements.

Transactions with Affiliates. The Savings Bank's authority to engage in transactions with "affiliates" is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Company and its non-savings institution subsidiaries would be affiliates of the Savings Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") generally prohibits a company from making loans to its executive officers and directors. However, that act contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal

banking laws. Under such laws, the Savings Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities such person's control is limited. The law restricts both the individual and aggregate amount of loans the Savings Bank may make to insiders based, in part, on the Savings Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), which was enacted in 1999, modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Savings Bank is subject to OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Savings Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In 2006, Congress re-enacted certain expiring provisions of the USA Patriot Act.

REGULATION OF FIRST BANCSHARES

General

First Bancshares is a unitary savings and loan holding company subject to regulatory oversight of the OTS. Accordingly, the Company is registered with the OTS and subject to OTS regulations, examinations, supervision and reporting requirements. The Company is required to file certain reports with, and otherwise comply with the regulations of, the OTS and the Securities and Exchange Commission. As a subsidiary of a savings and loan holding company, the Savings Bank is subject to certain restrictions in its dealings with the Company and with other companies affiliated with the Company and also is subject to regulatory requirements and provisions as federal institutions.

Mergers and Acquisitions. The Company must obtain approval from the OTS before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the Company to acquire control of a savings institution, the OTS would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Activities Restrictions. As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions. The Company and its non-savings institution subsidiaries are subject to statutory and regulatory restrictions on their business activities specified by federal regulations, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the GLBA.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 was signed into law by President Bush on July 30, 2002 in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934, including the Company.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Qualified Thrift Lender Test

If the Savings Bank fails the qualified thrift lender test, within one year the Company must register as a bank holding company, and will become subject to, the significant activity restrictions applicable to bank holding companies. See "Regulation of First Home -- Qualified Thrift Lender Test" for information regarding the Savings Bank's qualified thrift lender test.

TAXATION

Federal Taxation

General. The Company and the Savings Bank report their income on a fiscal year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Savings Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Savings Bank or the Company.

Bad Debt Reserve. Historically, savings institutions such as the Savings Bank which met certain definitional tests primarily related to their assets and the nature of their business ("qualifying thrift") were permitted to establish a reserve for bad debts and to make annual additions thereto, which may have been deducted in arriving at their taxable income. The Savings Bank's deductions with respect to "qualifying real property loans," which are generally loans secured by certain interest in real property, were computed using an amount based on the Savings Bank's actual loss experience, or a percentage equal to 8% of the Savings Bank's taxable income, computed with certain modifications and reduced by the amount of any permitted additions to the non-qualifying reserve. Due to the Savings Bank's loss experience, the Savings Bank generally recognized a bad debt deduction equal to 8% of taxable income.

In August 1996, the provisions repealing the current thrift bad debt rules were passed by Congress as part of "The Small Business Job Protection Act of 1996." The rules eliminate the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. These rules also require that all institutions recapture all or a portion of their bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). For taxable years beginning after December 31, 1995, the Savings Bank's bad debt deduction will be determined under the experience method using a formula based on actual bad debt experience over a period of years or, if the Savings Bank is a "large" association (assets in excess of $500 million) on the basis of net charge-offs

during the taxable year. The unrecaptured base year reserves will not be subject to recapture as long as the institution continues to carry on the business of banking. In addition, the balance of the pre-1988 bad debt reserves continue to be subject to provisions of present law referred to below that require recapture in the case of certain excess distributions to shareholders.

Distributions. To the extent that the Savings Bank makes "nondividend distributions" to the Company that are considered as made: (i) from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method; or (ii) from the supplemental reserve for losses on loans ("Excess Distributions"), then an amount based on the amount distributed will be included in the Savings Bank's taxable income. Nondividend distributions include distributions in excess of the Savings Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Savings Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Savings Bank's bad debt reserve. Thus, any dividends to the Company that would reduce amounts appropriated to the Savings Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Savings Bank. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if, the Savings Bank makes a "nondividend distribution," then approximately one and one-half times the amount so used would be includable in gross income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes).See "REGULATION" for limits on the payment of dividends by the Savings Bank. The Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

Corporate Alternative Minimum Tax. The Code imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. The excess of the tax bad debt reserve deduction using the percentage of taxable income method over the deduction that would have been allowable under the experience method is treated as a preference item for purposes of computing the AMTI. AMTI is increased by an amount equal to 75% of the amount by which the Savings Bank's adjusted current earnings exceed its AMTI (determined without regard to this preference and prior to reduction for net operating losses).

Dividends-Received Deduction and Other Matters. The Company may exclude from its income 100% of dividends received from the Savings Bank as a member of the same affiliated group of corporations. The corporate dividends-received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Company and the Savings Bank will not file a consolidated tax return, except that if the Company or the Savings Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

Other Federal Tax Matters. Other changes in the federal tax system could also affect the business of the Savings Bank. These changes include limitations on the deduction for personal interest paid or accrued by individual taxpayers, limitations on the deductibility of losses attributable to investment in certain passive activities and limitations on the deductibility of contributions to individual retirement accounts. The Savings Bank does not believe these changes will have a material effect on its operations.

There have not been any IRS audits of the Company's and Savings Bank's consolidated Federal income tax returns during the past five years.

Missouri Taxation

Missouri-based thrift institutions, such as the Savings Bank, are subject to a special financial institutions tax, based on net income without regard to

net operating loss carryforwards, at the rate of 7% of net income. This tax is in lieu of certain other state taxes on thrift institutions, on their property, capital or income, except taxes on tangible personal property owned by the Savings Bank and held for lease or rental to others and on real estate, contributions paid pursuant to the Unemployment Compensation Law of Missouri, social security taxes, sales taxes and use taxes. In addition, First Home is entitled to credit against this tax all taxes paid to the State of Missouri or any political subdivision except taxes on tangible personal property owned by the Savings Bank and held for lease or rental to others and on real estate, contributions paid pursuant to the Unemployment Compensation Law of Missouri, social security taxes, sales and use taxes, and taxes imposed by the Missouri Financial Institutions Tax Law. Missouri thrift institutions are not subject to the regular state corporate income tax.

There have not been any audits of the Savings Bank's state income tax returns during the past five years.

For additional information regarding taxation, see Note _ of the Notes to the Consolidated Financial Statements included in the Annual Report.

Competition

The Savings Bank has been, and continues to be, a community-oriented savings institution offering a variety of financial resources to meet the needs of Wright, Webster, Douglas, Ozark, Christian, Stone, Taney and Green counties, Missouri. The Savings Bank also transacts a significant amount of business in Texas county, Missouri. The Savings Bank's deposit gathering and lending activities are concentrated in these market areas. At June 30, 2007, the Savings Bank's offices were located in Mountain Grove, Marshfield, Ava, Gainesville, Sparta, Theodosia, Crane, Galena, Kissee Mills, Rockaway Beach, and Springfield, Missouri. In addition, a loan production office was opened in Springfield, Missouri in March 2007.

The Savings Bank is the only thrift institution located in Wright County, Missouri. The Savings Bank faces strong competition in the attraction of savings deposits and in the origination of loans. Its most direct competition for savings deposits and loans has historically come from other thrift institutions and from commercial banks, small loan companies and credit unions located in its primary market area, some with a state-wide or regional presence. The Savings Bank also competes with securities firms, money market funds and mutual funds in raising deposits. Many of these institutions are substantially larger and have greater financial resources than the Savings Bank.

The competitive factors among financial institutions can be classified into two categories; competitive rates and competitive services. Interest rates are widely advertised and thus competitive, especially in the area of time deposits. From a service standpoint, financial institutions compete against each other in types and quality of services. The Savings Bank is generally competitive with other financial institutions in its area with respect to interest rates paid on time and savings deposits, fees charged on deposit accounts, and interest rates charged on loans. With respect to services, the Savings Bank offers a customer service-oriented atmosphere which management believes is tailored to its customers' needs.

The Savings Bank also believes it benefits from its community orientation as well as its relatively high core deposit base.

40

Executive Officers

The following table sets forth certain information with respect to the executive officers of the Company and the Savings Bank.

Name	Age(1)	Position
Daniel P. Katzfey (2)	45	President and Chief Executive Officer of the Company and the Savings Bank
James W. Duncan (3)	50	President and Chief Executive Officer Of the Company and the Savings Bank
Ronald J. Walters (4)	57	Senior Vice President, Treasurer and Chief Financial Officer of the Company and the Savings Bank
Dale W. Keenan (5)	44	Executive Vice President and Senior Lender of the Savings Bank
Adrian C. Rushing (6)	38	Chief Operating Officer of the Savings Bank

----

(1) As of June 30, 2007.

(2) Mr. Katzfey was named Interim President and Chief Executive Officer of the Company and the Savings Bank by the Board on December 22, 2006 following the resignation of James W. Duncan from those positions. Mr. Katzfey was named President and Chief Executive Officer of the Company and the Savings Bank by the Board on January 22, 2007. He originally joined both the Company and the Savings Bank as Chief Lending Officer on October 3, 2006.

(3) Mr. Duncan resigned as president and Chief Executive Officer of the Company and the Savings Bank on December 22, 2006 and as a director of the Company and the Savings Bank on January 26, 2007.

(4) Mr. Walters was named Senior Vice President, Treasurer and Chief

Financial Officer of both the Company and the Savings Bank on November 20, 2006. He replaced the previous Chief Financial Officer who stepped down from those positions on September 18, 2006.

(5) Mr. Keenan was named Executive Vice President and Senior Lender of the Savings Bank on March 11, 2007.

(6) Mr. Rushing was named Senior Vice President of the Savings Bank on June 21, 2006, the date on which he joined the Savings Bank.

The principal occupation of each executive officer of the Company is set forth below. All executive officers reside in the Savings Bank's primary trade area in Missouri, unless otherwise stated. There are no family relationships among or between the executive officers, unless otherwise stated.

Daniel P. Katzfey joined the Company and the Bank on October 3, 2006 as Executive Vice President and Chief Lending Officer, was named interim President and Chief Executive Officer on December 22, 2006 and was appointed President and Chief Executive Officer on January 22, 2007. Previously, Mr. Katzfey was Executive Vice President, Commercial Lender for Village Bank, Springfield, Missouri from 2004 to 2006. Mr. Katzfey has over twenty-two years experience in financial services.

James W. Duncan joined the Company and Savings Bank as President and Chief Executive Officer effective December 16, 2005. Previously, Mr. Duncan was the Executive Vice President and Chairman of the Loan Department at Southern Missouri Bank and Trust Company in Poplar Bluff, Missouri from 1999-2005. Effective December 22, 2006, Mr. Duncan resigned as President and Chief Executive Officer of both the Company and the Savings Bank.

Ronald J. Walters joined the Company and the Savings Bank on November 20, 2006 as Senior Vice President, Treasurer and Chief Financial Officer. Mr. Walters, a CPA, was previously Senior Vice President, Secretary, Treasurer and Chief Financial Officer of Meta Financial Group and MetaBank in Storm Lake,

Iowa from 2003 to 2006. He has over thirty years experience in financial services.

Dale W. Keenan joined the Savings Bank on March 11, 2007 as Executive Vice President and Senior Lender. Mr. Keenan was previously a Senior Vice President and Senior Lender for Heritage Bank of the Ozarks in Lebanon, Missouri from 2003 to 2007. Mr. Keenan has over twenty-four years of experience in financial services.

Adrian Rushing joined the Savings Bank on June 21, 2006 as Senior Vice President and Chief Operating Officer. Mr. Rushing was previously Senior Vice President, Chief Operations Officer with Southern Missouri Bank and Trust, Poplar Bluff, Missouri from 1998 to 2006. Mr. Rushing has over sixteen years experience in financial services.

Personnel

As of June 30, 2007, the Savings Bank had 103 full-time employees and 22 part-time employees. The Savings Bank believes that employees play a vital` role in the success of a service company and that the Savings Bank's relationship with its employees is good. The employees are not represented by a collective bargaining unit.

Item 2. Description of Property

The following table sets forth information regarding the Savings Bank's offices as of June 30, 2007.

Location	County	Year Opened	Net Book Value as of 6/30/07 (Dollars in thousands)	Land Owned/ Leased	Building Owned/ Leased	Square Footage
Main Office						
142 East First Street Mountain Grove, MO 65711	Wright	1911	$1,085	Owned	Owned	15,476
Branch Offices						
1201 N. Jefferson Street Ava, MO 65608	Douglas	1978	263	Owned	Owned	3,867
103 South Clay Street Marshfield, MO 65706	Webster	1974	232	Owned	Owned	3,792
203 Elm Street Gainesville, MO 65655	Ozark	1992	485	Owned	Owned	3,321
7164 Highway 14 East Sparta, MO 65753	Christian	1995	203	Owned	Owned	3,000
Business Highway 160 Theodosia, MO 65761	Ozark	1997	20	Leased	Leased	1,824
123 Main Street Crane, MO 65633	Stone	1998	217	Owned	Owned	5,000

(table continued on the following page)

Location	County	Year Opened	Net Book Value as of 6/30/07 (Dollars in thousands)	Land Owned/ Leased	Building Owned/ Leased	Square Footage
112 East 5th Street Galena, MO 65656	Stone	1998	51	Owned	Owned	1,100
20377 US Highway 160 Forsyth, MO 65653 (1)	Taney	2000	783	Owned	Owned	3,386
2536 State Highway 176	Taney	2000	415	Owned	Owned	2,500

Rockaway Beach, MO 65740						
2655 South Campbell Springfield, MO 65807	Greene	2006	81	Leased	Leased	2,963
Drive-in Facilities						
207 West 3rd Street Mountain Grove, MO 65711	Wright	1986	115	Owned	Owned	2,268
223 West Washington Marshfield, MO 65706	Webster	1993	208	Owned	Owned	1,000
Loan Production Office						
4039 South Fremont Springfield, MO 65804	Greene	2006	-	Leased	Leased	2,450

----

(1) This office is located in Kissee Mills, Missouri, but has a mailing address in Forsyth, Missouri.

Item 3. Legal Proceedings

From time to time, the Company and the Savings Bank may be involved in various legal proceedings that are incidental to their business. In the opinion of management, neither the Company nor the Savings Bank is a party to any current legal proceedings that are expected to be material to the financial condition or results of operations of the Company or the Savings Bank, either individually or in the aggregate.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

The information contained in the section captioned "Common Stock Information" in the Annual Report to Stockholders attached to this Form 10-KSB as Exhibit 13 is incorporated herein by reference. In addition, the "Equity Compensation Plan Information" contained in Part III, Item 11 of this Form 10-KSB is incorporated herein by reference.

Share Repurchase Activity

The Company completed ten separate stock repurchase programs between March 9, 1994 and May 28, 2004. On May 28, 2004, an 11th repurchase program of

164,336 shares was initiated. While this program was in effect, a total of 95,618 shares were repurchased at a total cost of $1.9 million. The 11th repurchase program was terminated by the Board on April 27, 2007. As of June 30, 2007, 1,344,221 shares had been repurchased under repurchase programs at a cost of $19.1 million or an average cost per share of $14.22.

The table below sets forth information regarding the Company's repurchases of its common stock during the fourth quarter of fiscal 2007.

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
April 1 - 30, 2007	500	$16.06	95,618	-
May 1 - 31, 2007	-		-	
June 1 - 30, 2007	-		-	
Total	500	$16.06	95,618	-

Item 6. Management's Discussion and Analysis or Plan of Operation

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7. Financial Statements

Independent Auditors Reports *

(a) Consolidated Statements of Financial Condition as of June 30, 2007 and 2006*

(b) Consolidated Statements of Income for the Years Ended June 30, 2007 and 2006*

(c) Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 2007 and 2006*

(d) Consolidated Statements of Cash Flows for the Years Ended June 30, 2007 and 2006*

(e) Notes to Consolidated Financial Statements*

* Contained in the Annual Report to Stockholders attached to this Form 10-KSB as Exhibit 13, which is incorporated herein by reference. All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report to Stockholders.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The information required by this item was previously reported by the Registrant in its Current Report on Form 8-K filed with the Securities and Exchange Commission on May 2, 2006.

Item 8A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Section 12(a)-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out as of June 30, 2007 under the supervision and with the

participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2007 the Company's disclosure controls and procedures were 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 Control Over Financial Reporting: During the quarter ended June 30, 2007, no change occurred in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company does not expect that its 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.

Item 8B. Other Information

Not applicable.

PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act

For information required by this item concerning Directors of the Company, see the section captioned "Proposal I -- Election of Directors" included in the Company's Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the Company's fiscal year end and is incorporated herein by reference.

For information concerning Executive Officers of the Company, see the section captioned "-- Executive Officers" in Part I of this Form 10-KSB, which is incorporated herein by this reference.

Compliance with Section 16(a) of the Exchange Act

The information required by this item will be contained in the section captioned "Compliance with Section 16(a) of the Exchange Act" is included in the Company's Proxy Statement and is incorporated herein by reference.

Audit Committee and Audit Committee Financial Expert

The Audit Committee consists of Directors Moody and Hixon. The Board of Directors has determined Director Hixon qualifies as an "audit committee financial expert," as defined by the SEC. Mr. Hixon is independent, as independence for audit committee members as defined under the listing standards of the NASDAQ Stock Market.

Code of Ethics

First Bancshares, Inc. has adopted a Code of Ethics that applies to First Bancshares' directors, executive officers and all other employees, which was included as Exhibit 14 to the Form 10-KSB for the year ended June 30, 2006. A copy of First Bancshares' Code of Ethics is available to any person without charge, upon written request made to the Corporate Secretary at PO Box 777, Mountain Grove, Missouri 65711.

Item 10. Executive Compensation

The information contained under the section captioned "Directors' Compensation" and "Executive Compensation" included in the Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the Company's fiscal year end, are incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information. The following table summarizes share and exercise price information about the Company's equity compensation plans as of June 30, 2007.

Plan Category	(a) Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Plans Compensation (Excluding Securities Reflected in Column (a))
Equity Compensation Plans approved by security holders:			
Option Plan	64,500	$16.76	35,500
Restricted stock plan	-	-	50,000
Equity Compensation Plans not approved by security holders:	-	-	-
Total	64,500	$16.76	85,500

(a) Security Ownership of Certain Beneficial Owners and Management.

The information contained in the section captioned "Voting Securities and Security Ownership of Certain Beneficial Owners and Management" is included in the Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the Company's fiscal year end, is incorporated herein by reference.

(b) Security Ownership of Management

The information contained in the sections captioned "Voting Securities and Security Ownership of Certain Beneficial Owners and Management" and "Proposal I - Election of Directors" is included in the Company's Proxy Statement and are incorporated herein by reference.

(c) Changes in Control

The Company is not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions, and Director Independence

The information contained in the section captioned " Transactions with

Management" and "Meetings And Committees Of The Board Of Directors And Corporate Governance Matters-Director Independence" is included in the Company's Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the Company's fiscal year end, is incorporated herein by reference.

Item 13. Exhibits

(a) 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 (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)10.4First Bancshares, Inc. 2004 Management Recognition Plan (4)
10.5	First Bancshares, Inc. 2004 Stock Option Plan (4)
10.6	Form of Incentive Stock Option Agreement (5)
10.7	Form of Non-Qualified Stock Option Agreement (5)
10.8	First Bancshares, Inc. 2004 Management Recognition Plan (4)
10.9	Severance Agreement between First Bancshares, Inc. and First Home Savings Bank and Charles W. Schumacher (6)
10.10	Employment Agreement with James W. Duncan (7)
10.11	Employment Agreement with Daniel P. Katzfey (8)
13.	2007 Annual Report to Stockholders (Except for the portions of the 2007 Stockholder Report that are expressly incorporated by reference in this Annual Report on Form 10-KSB, the 2007 Stockholder Report of the Company shall not be deemed filed as a part hereof.)
14.	Code of Ethics (9)
16.	Letter on change in certifying accountant (10)
21.	Subsidiaries of the Registrant
23.	Auditors' Consent
31.1	Rule 13a-14(a) Certification (Chief Executive Officer)
31.2	Rule 13a-14(a) Certification (Chief Financial Officer)
32.1	Section 1350 Certification (Chief Executive Officer)
32.2	Section 1350 Certification (Chief Financial Officer)

---

(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 Form 10-KSB for the fiscal year ended June 30, 2001. An updated Employment Agreement with Mr. Schumacher was entered into in November 2004 and terminated in June 2005.

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

(5) Filed as an exhibit to the Current Report on Form 8-K dated February 22, 2006 and incorporated herein by reference.

(6) Filed as an exhibit to the Current Report on Form 8-K dated October 31, 2005.
(7) Filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2005.
(8) Filed as an exhibit to the Current Report on Form 8-K dated July 20, 2007.
(9) Filed as an exhibit to the Company's Form 10-KSB for the fiscal year ended June 30, 2006.
(10) Filed as an exhibit to the Company's Current Report on Form 8-K filed on May 2, 2006 and incorporated herein by reference.

48

Item 14. Principal Accountant Fees and Services.

The information required by this item is included in the Company's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Company's fiscal year end and is incorporated herein by reference.

49

SIGNATURES

In accordance with Section 13 or 15(d) 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: September 28, 2007

By: /s/Daniel P. Katzfey

Daniel P. Katzfey
President and Chief
Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Daniel P. Katzfey — September 28, 2007

Daniel P. Katzfey
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/Ronald J. Walters — September 28, 2007

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

(Principal Financial and Accounting Officer)

By: /s/Thomas M. Sutherland Thomas M. Sutherland Chairman of the Board	September 28, 2007
By: /s/Harold F. Glass Harold F. Glass Director	September 28, 2007
By: /s/John G. Moody John G. Moody Director	September 28, 2007
By: /s/D. Mitch Ashlock D. Mitch Ashlock Director	September 28, 2007
By: /s/Billy E. Hixon Billy E. Hixon Director	September 28, 2007

EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
13	2007 Stockholder Report. Except for the portions of the 2007 Stockholder Report that are expressly incorporated by reference in this Annual Report on Form 10-KSB, the 2007 Stockholder Report of the Company shall not be deemed filed as a part hereof.
21	Subsidiaries of the Registrant
23	Consent of Auditors
31.1	Rule 13a - 14(a) Certification (Chief Executive Officer)
31.2	Rule 13a - 14(a) Certification (Chief Financial Officer)
32.1	Rule 1350 Certification (Chief Executive Officer)
32.2	Rule 1350 Certification (Chief Financial Officer)

Exhibit 13

Annual Report to Stockholders

First Bancshares, Inc.

2007 Annual Report

First Home Savings Bank

A wholly owned subsidiary of First Bancshares, Inc.

www.fhsb.com

TABLE OF CONTENTS

Dear Fellow Shareholder:

It is with great pride that we present to you the First Bancshares Annual Report for the fiscal year ended June 30, 2007. This past year has been one of transition and tremendous challenge for our employees and senior management, and the result was a profitable one. We believe we have taken the steps necessary for continued future growth and profitability. We would like to take this opportunity to outline five factors which contributed to the improvements in our performance; they are: 1) additions to the management and the Board of Directors, 2) improvements in our lending operations and asset quality, 3) enhancements and increases in earnings, and controlling expenses and spending, 4) focus on resolving regulatory issues, and 5) product development and market growth.

Our efforts resulted in an improvement in our results of operations for the year ended June 30, 2007. To summarize, the Company had a net profit for the year ended June 30, 2007 of $272,000, or $0.18 per diluted share, compared to a net loss of $173,000, or $0.11 per diluted share, for the year ended June 30, 2006.

The first area of improvement was the addition and replacement of the entire senior management team including the President and Chief Executive Officer, the Chief Operating Officer, Chief Financial Officer, Senior Lender, Chief Credit Officer, and the Compliance Officer. The new executive management team has over 135 years of combined commercial banking and savings and loan experience. We enhanced our positions in human resources, information technology, and bookkeeping as well as by adding a branch coordinator and a Controller. We instituted an internal loan review to enhance our underwriting. We recognize the importance of depth of knowledge and experience and we will continue to work on augmenting our banking team. In addition, we added one new board member and an advisory board member, both with extensive banking backgrounds, and we have formed board committees, to provide improved oversight.

Another goal was to improve our lending operations and asset quality, decrease our classified assets and to improve our lending policy and procedures. We resolved numerous loan delinquencies and obtained proper evaluations of collateral and also corrected a number of loan documentation errors. As a result of our efforts, the number of delinquent loans in the portfolio has decreased. This is not to suggest that we do not have additional problem loans in the portfolio, but that we believe we have improved our underwriting and oversight. We have established better policies and training for all lending staff. Internal loan reviews by our Chief Credit Officer, our Compliance Officer and our loan processing and administration staff have significantly improved our underwriting. We are analyzing the types of investments we need and are utilizing models to test profitability under various interest rate scenarios.

Another area that needed attention was the reduction of expenses and enhancement of revenue, especially in the branch network. We have begun increasing revenue by reviewing, among other things, interest income and non interest income. While interest expense was increasing, non-interest income was declining. Based on our new strategy this is reversing. By creating and adopting budgets and a proper business plan, we have established goals and targets to increase earnings. We have adjusted our loan and deposit rates to be competitive while with the goal of improving the margin for the Bank. We have developed strategies in pricing our products and services to bring our fee income in line with fee income of our peer group banks. We have set goals and levels of achievement for all

department managers, and we will measure them in the future based on our branch profitability. Our expansion into the Springfield, Missouri market has helped increase our interest rate spread by allowing for higher loan rates and increased loan originations. We initiated a secondary market residential lending department in Springfield in March 2007. This has been successful as a result of our ability to attract experienced mortgage staff. The secondary market residential mortgage division has realized a profit since its inception and has been a much needed source of non-interest income.

Resolving regulatory issues has been an important focus of senior management. In particular, we have been working diligently to resolve the regulatory issues that resulted in a Memorandum of Understanding ("MOU") that was imposed on the Bank in December 2006 by the Office of Thrift Supervision ("OTS"). Our senior management made this a top priority and, by May 2007, we had completed the process of addressing the issues raised by the MOU, with the exception of the development of a three year business plan. The business plan is due to the OTS at the end of October 2007, and is on schedule for timely completion. We look forward to the next exam, and our goal is to have the MOU lifted by or soon after the end of calendar 2007.

A very important goal and key to our success is product development and becoming a market leader. For the past 12 months our success was enhanced by the introduction and installation of basic bank products that gave us an advantage over competition. We were the first in many of our market areas to offer "E" checking, enhanced Free checking, a higher rate money market savings account, enhanced debit card programs, merchant capture and cash management for our growing number of business accounts.

We initially opened our facility in Springfield in May of 2006 as a loan production office, with three employees. It has been expanded to a full service banking facility with over 10 employees. Our loans and deposits have grown tremendously, and we have shown that by employing talented people in a new market, the Bank can achieve profitability in one year. In the first year of operation, the Springfield branch has surpassed some of our branches in smaller markets in total deposits, and it has also surpassed many of our branches in loan growth. We are very proud of our Springfield office and, while no specific plans have as yet been developed, we look forward to additional branches in Springfield in the future. We will continue to look at new markets to expand our customer base and improve net income and earnings per share.

Fiscal 2007 was a far better year than the fiscal 2006, and we look forward to an even better 2008. Thanks for your continued support and understanding as we try to bring stability and growth to your Company.

Sincerely,

Daniel P Katzfey
President and Chief Executive Officer
First Bancshares, Inc.
President and Chief Executive Officer
First Home Savings Bank

Business of the Company

First Bancshares, Inc. ("Company"), a Missouri corporation, was incorporated on September 30, 1993 for the purpose of becoming the holding company for First Home Savings Bank ("First Home" or the "Savings Bank") upon the conversion of First Home from a Missouri mutual to a Missouri stock savings and loan association. That conversion was completed on December 22, 1993. At June 30, 2007, the Company had total consolidated assets of $241.3 million and consolidated stockholders' equity of $26.5 million.

The Company is not engaged in any significant business activity other than holding the stock of First Home. Accordingly, the information set forth in this report, including the consolidated financial statements and related data, applies primarily to First Home. The Company has been involved in the ownership of real estate, held for the purpose of generating rental revenue. During fiscal 2007, other similar real estate that had been held by First Home's subsidiary, Fybar Service Corporation, was transferred to the Company. This was done as a result of the memorandum of understanding entered into in December 2006 by First Home and the Office of Thrift Supervision (the "OTS") following the OTS' most recent examination of the Savings Bank.. The Company has begun the process of divesting its real estate holdings.

First Home is a Missouri-chartered, federally-insured stock savings bank organized in 1911. The Savings Bank is regulated by the Missouri Division of Finance and the Office of Thrift Supervision ("OTS"). Its deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation. First Home also is a member of the Federal Home Loan Bank ("FHLB") System.

First Home conducts its business from its home office in Mountain Grove and ten full service branch facilities in Marshfield, Ava, Gainesville, Sparta, Theodosia, Crane, Galena, Kissee Mills, Rockaway Beach, and Springfield, Missouri. The Springfield, Missouri office was opened in July 2006. In addition to the branch offices, during fiscal 2007, the First Home opened a loan origination office in Springfield, Missouri. First Home provides its customers with a full array of community banking services and is primarily engaged in the business of attracting deposits from, and making loans to, the general public, including individuals and small to medium size businesses. First Home emphasizes the origination of one-to-four family residential mortgage loans along with multi-family residential, consumer, commercial and home equity loans. First Home also invests in mortgage-backed, United States Government and agency securities and other assets.

At June 30, 2007, First Home's total gross loans were $161.5 million, or 66.9% of total consolidated assets, including residential mortgage loans of $86.5 million, or 53.6% of total gross loans and other mortgage loans of $54.3 million, or 33.6% of total gross loans. Of the mortgage loans, over 72.6% are adjustable-rate loans.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth certain information concerning the consolidated financial position and operating results of the Company as of and for the dates indicated. The Company is primarily in the business of directing, planning and coordinating the business activities of First Home. The consolidated data is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and its subsidiaries presented herein.

	At June 30,				
	2007	2006	2005	2004	2003
	(In thousands)				
FINANCIAL CONDITION DATA:					
Total assets	$ 241,331	$ 228,395	$ 244,007	$ 264,978	$268,542
Loans receivable, net	158,993	141,987	158,143	166,259	176,707
Cash, interest-bearing					

deposits and securities	65,498	69,007	68,600	81,971	75,349
Customer deposits	190,090	179,141	187,143	207,247	211,664
Retail repurchase agreements	2,103	-	-	-	-
Borrowed funds	22,000	22,000	28,394	29,121	29,352
Stockholders' equity	26,468	26,291	26,817	27,276	26,404

	Years Ended June 30,				
	2007	2006	2005	2004	2003
	(In thousands, except per share information)				
OPERATING DATA:					
Interest income	$ 13,724	$ 12,913	$ 13,265	$ 13,735	$ 15,486
Interest expense	7,354	5,987	5,091	5,727	7,098
Net interest income	6,370	6,926	8,174	8,008	8,388
Provision for loan losses	426	1,520	2,333	340	427
Net interest income after provision for loan losses	5,944	5,406	5,841	7,668	7,961
Impairment of and gains/ (losses) on securities	177	(421)	(4)	178	27
Non-interest income, excluding gains/(losses) on securities	2,127	1,902	2,911	2,310	1,877
Non-interest expense	8,094	7,151	7,415	6,744	6,357
Income (loss) before taxes	154	(264)	1,333	3,412	3,508
Income tax expense (benefit)	(118)	(91)	16	1,065	1,264
Net income (loss)	$ 272	$ (173)	$ 1,317	$ 2,347	$ 2,244
Basic earnings (loss) per share	$ 0.18	$ (0.11)	$ 0.83	$ 1.42	$ 1.37
Diluted earnings (loss) per share	$ 0.18	$ (0.11)	$ 0.83	$ 1.42	$ 1.35
Dividends per share	$ 0.08	$ 0.16	$ 0.16	$ 0.16	$ 0.16

4

	At or For the Years Ended June 30,				
	2007	2006	2005	2004	2003
KEY OPERATING RATIOS:					
Return on average assets	0.09 %	NA %	0.51 %	0.87 %	0.85 %
Return on average equity	0.77	NA	4.60	8.49	8.68
Average equity to average assets	11.32	11.52	11.10	10.22	9.77

Interest rate spread for period	2.71	2.96	3.31	3.04	3.13
Net interest margin for period	3.01	3.21	3.48	3.22	3.37
Non-interest expense to average assets	3.46	2.99	2.88	2.49	2.41
Average interest-earning assets to interest-bearing liabilities	108.66	108.98	108.01	107.16	108.50
Allowance for loan losses to total loans at end of period	1.59	1.67	1.74	0.73	0.63
Net charge-offs to average loans outstanding during the period	0.14	1.29	0.44	0.14	0.09
Ratio of non-performing assets to total assets	1.47	0.59	2.21	1.02	1.34
Ratio of loan loss allowance to non-performing assets	79.08	184.52	52.93	45.98	41.66
Dividend payout ratio	44.44	NA	19.28	11.27	11.68

	June 30,				
OTHER DATA:	2007	2006	2005	2004	2003
Number of:					
Loans outstanding	3,450	3,644	4,263	4,771	5,296
Deposit accounts	23,983	24,724	25,021	25,419	25,565
Full service offices	11	10	10	10	10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the Consolidated Financial Statements, the accompanying Notes to Consolidated Financial Statements and the other sections contained in this report.

Management's Discussion and Analysis ("MD&A") and other portions of this report contain certain "forward-looking statements" that may relate to the Company's expected future financial results, strategic plans or objectives. These statements are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Company and the Savings Bank. Words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, projects, variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may materially differ from what may be expressed or forecasted in the forward-looking statements. The Company undertakes no obligation to update, amend, or clarify forward looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: the credit risks of lending activities, including changes in the level and direction of loan delinquencies, other loans of concern, loan write-offs and changes in estimates of the adequacy of the allowance for loan losses; competitive pressures among depository institutions; interest rate movements and their impact on customer behavior and net interest margin; the impact of repricing and competitor pricing initiatives on loan and deposit products; the ability to adapt successfully to technological changes to meet customers' needs and development in the marketplace; our ability to access cost-effective funding; changes in financial markets; changes in economic conditions in general and particularly as related to our market areas; new legislation or regulatory changes, including but not limited to changes in federal and/or state tax laws or interpretations thereof by taxing authorities; the outcome of litigation; limitations on our future business activities resulting from the Memorandum of Understanding between the Savings Bank and the Office of Thrift Supervision entered into on December 1, 2006; changes in accounting principles, policies or guidelines; the economic impact of any terrorist actions on our loan originations and loan repayments; and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

Corporate Developments and Overview

During the quarter ended December 31, 2006, the Savings Bank entered into a memorandum of understanding ("MOU") with the Office of Thrift Supervision (the "OTS"). The MOU resulted from issues noted during the examination of the Bank conducted by the OTS, the report on which was dated in July 2006, and included deficiencies in lending policies and procedures, recent operating losses, and the need to revise both the business plan and the budget to enhance profitability. The corrective actions required to be taken by the Bank under the MOU include, among others: (1) developing procedures concerning ongoing credit administration and monitoring; (2) continuing to identify, track and correct credit and collateral documentation

exceptions and loan policy exceptions; (3) preparing and submitting to the Bank's Board of Directors an accurate and complete loan-to-one borrower report; (4) preparing and updating, where appropriate, a workout plan for each classified asset over $250,000; (5) adopting a revised loan loss allowance policy; (6) amending the Bank's appraisal policy to require written review of all appraisals prior to final loan approval; (7) adopting a revised loan policy that provides for underwriting guidelines, loan documentation, and credit administration procedures for unsecured loans; (8)either request the consent of the FDIC for the Savings Bank's subsidiary, FYBAR Service Corporation, to hold real estate for investment or approve a plan for divestiture of such investment by June 30, 2007; (9) implementing corrective actions with respect to the previously conducted independent information technology audit; and (10) preparing, adopting and submitting to the OTS a comprehensive three year business plan and budget. The Company believes that, except for the development of the three-year business plan, for which an extension to October 31, 2007 was granted by the OTS, the Savings Bank has satisfactorily addressed all of the issues raised by the MOU. During July

2007, the OTS performed an on-site review of the progress made on the resolving the issues discussed in the MOU. The Savings Bank will not receive a formal report from the OTS on the results of this review.

During the first half of fiscal 2007, there were several changes in composition of senior management of both the Company and the Savings Bank. In November 2006, Ronald J. Walters was named Chief Financial Officer of both the Company and the Savings Bank, replacing the former Chief Financial Officer who departed in September 2006. In December 2006, James W. Duncan resigned as President and Chief Executive Officer of both the Company and the Savings Bank. Daniel P. Katzfey, Executive Vice President and Chief Lending Officer, was named Interim President and CEO. On January 19, 2007, Mr. Katzfey became President and Chief Executive Officer of both the Company and the Savings Bank. The Boards of Directors of the Company and the Savings Bank were expanded in connection with the addition of a sixth person and the appointment of an advisory director. During the quarter ended March 31, 2007, Mr. Duncan resigned as a director of both the Company and the Bank, and Mr. Katzfey was appointed to both boards.

As the result of the senior management changes and the MOU, , and other changes in products, operations and procedures, the Savings Bank needed to fill several positions, including Chief Lending Officer, credit analyst and controller. In March 2007, Mr. Dale W. Keenan was named Executive Vice President and Senior Loan Officer of the Savings Bank, and John K. Francka was named Senior Vice President-Chief Credit Officer of the Savings Bank. Both Messrs. Keenan and Francka have extensive experience in lending and management. In addition, Jeffrey Palmer was named Controller of the Savings Bank.

During the quarter ended March 31, 2007, the Savings Bank obtained permission from the State of Missouri to open a loan production office in Springfield, Missouri. This office, which was established primarily to originate single family mortgage loans for sale to the secondary market, complements the full-service branch office opened in Springfield in July 2006. The Savings Bank has added two originators, two loan processors and an individual whose responsibility is packaging the loans for delivery to and tracking receipt of funding from the companies on whose behalf the loans were made. All loan production office personnel have extensive experience in the origination of single-family mortgage loans for sale in the secondary market. Since the loans involved are originated on behalf of other parties, the servicing rights belong to the other parties as well, unless the terms of the sale provide for the retention of servicing rights by the Savings Bank. In its loan sale activity to date, the Savings Bank has not retained servicing rights.

The Savings Bank has continued to seek opportunities to reduce its non-interest expense and improve customer service through the utilization of technology. At the beginning of fiscal year 2007, the Savings Bank went from manual posting of all customer transactions to branch capture with electronic settlement with the Federal Reserve. This eliminated courier expenses to route

7

checks and other items from the branches to the Mountain Grove office, and to the Federal Reserve. In addition, the Bank also utilized imaging features of branch capture, along with auto-mail technology, to bring customer statement processing in-house. Third party processing costs and related courier expenses were eliminated, postage expense decreased, and statement delivery time to customers decreased from approximately three weeks to three days.

During the quarter ended March 31, 2007, the Savings Bank began to extend this technology to business customers with high volumes of check deposits, allowing for remote image capture with equipment located at the customer facilities. In addition, remote image capture provides a powerful marketing tool when calling on prospective customers.

Operating Strategy

The primary goals of management are to reduce and manage risk, improve profitability and promote the growth of the Company. Operating results depend primarily on net interest income, which is the difference between the income earned on interest-earning assets, consisting of loans and securities, and the cost of interest-bearing liabilities, consisting of deposits and borrowings. Net income is also affected by, among other things, provisions for loan losses and operating expenses. Operating results are also significantly affected by general economic and competitive conditions, primarily changes in market interest rates, governmental legislation and policies concerning monetary and fiscal affairs and housing, as well as, by other financial institutions and the actions of the regulatory authorities. Management's strategy is to strengthen First Home's presence in, and expand the boundaries of, its primary market area.

Management has implemented various general strategies with the intent of improving profitability while maintaining, and as necessary, improving safety and soundness. Primary among those strategies are, to the extent that market conditions allow, increasing the volume of originated one-to-four family loans, actively seeking high quality commercial real estate loans, continuing improvement in, and maintaining, asset quality, and managing interest-rate risk. Since the start-up of the loan origination office in Springfield, Missouri in March, 2007, most of the fixed-rate, single-family mortgages originated by the Company have been sold to third parties, while adjustable rate loans are retained in portfolio. This is consistent with First Home's historical general practice of primarily being an adjustable rate lender. It is anticipated, subject to market conditions, that no changes will be made in these strategies.

Lending. Historically, First Home predominantly originated one-to-four family residential loans. One-to-four family residential loans were 55% of the mortgage loans originated during fiscal year 2007, compared with 73% of the mortgage loans originated during fiscal 2006. At June 30, 2007, residential mortgage loans as a percent of the Savings Bank's total gross loan portfolio were approximately 54% compared to approximately 55% at June 30, 2006. First Home has gradually increased its commercial real estate loan originations within its traditional lending territory over the past six years from 20% of loan originations for the year ended June 30, 2001 to approximately 27% of loan originations for the year ended June 30, 2006 to almost 41% of loan originations for the year ended June 30, 2007. It is anticipated that this trend will continue for the foreseeable future as the Savings Bank enters new markets and develops new products.

Asset Quality. Asset quality remains a significant concern of management and the Company's Board of Directors. The Savings Bank's asset quality is monitored and measured using various benchmarks. The two key items are non-performing loans and classified loans. Non-performing loans consist of non-accrual loans, loans past due over 90 days and impaired loans not past due or past due less than 60 days. Classified loans are loans internally identified as having greater credit risk and requiring additional monitoring. Past due loans (i.e. loans 30-89 days delinquent) at June 30, 2007 were 3.44% of the total loan portfolio and included 1.72% of total residential loans,

5.77% of total commercial real estate loans, 15.11% of total commercial business loans and 2.22% of total consumer loans.

The table below shows the risk classification of the Savings Bank's loan portfolio at the dates indicated. Non-performing loans increased by $2.4 million to $3.2 million at June 30, 2007 from $844,000 at June 30, 2006. The increase in non-performing loans was due in large part to five non-accrual loans involving two borrowers. In one case, there are four loans totaling over $1.6 million where the borrower has filed for protection under the bankruptcy laws. While reorganization was the stated goal in bankruptcy, the situation evolved to the point where liquidation is the most probable outcome. The other loan, with a balance of $512,000 has proceeded to liquidation as well. Classified loans decreased by $4.0 million, or 48%, to $4.3 million at June 30, 2007 compared to $8.3 million at June 30, 2006. This decrease is the result of efforts by management to encourage borrowers to take the steps necessary to resolve issues with their loans before the issues become insurmountable. Stricter internal policies relating to the identification and monitoring of problem loans have been beneficial in reducing classified loans. In addition to the classified loans, the Savings Bank has identified an additional $4.8 million of credits at June 30, 2007 on its internal watch list including $3.0 million, $805,000, $989,000 and $96,000 of commercial real estate, commercial business, one-to-four family and consumer loans, respectively. Management has identified these loans as high risk credits and any deterioration in their financial condition could increase the classified loan totals

Asset quality: (in thousands)

	At or for the Year Ended June 30, 2007	2006
Non-performing assets:		
Past due over 90 days	$ 359	$ 3
Non-accrual loans	2,889	841
Other	-	-
Total non-performing loans	3,248	844
Real estate owned	291	497
Total non-performing assets	$ 3,539	$ 1,341
Classified loans:		
Loss	$ -	$ -
Doubtful	101	686
Substandard	4,176	5,898
Sub total	4,277	6,584
Special mention	-	1,681
Total classified assets	4,277	8,265
Total watch list credits	4,843	-
Total loans of concern	$ 9,120	$ 8,265
Net charge-offs	$ 208	$ 1,897
Provision for loan losses	$ 426	$ 1,520

The Savings Bank's provision for loan losses for the year ended June 30, 2007 decreased $1.1 million to $426,000 from $1.5 million for the year ended June 30, 2006. This was a return to a more typical provision following significantly higher provisions in both fiscal 2006 and 2005.

Managing Interest-Rate Risk. First Home has relied primarily on adjustable interest rate loans and short-term fixed-rate loans to manage the inherent risks of interest rate changes. During

fiscal 2006, in order to compete in the current interest rate environment, First Home began offering long-term fixed rate mortgages to borrowers with good credit quality. With the aim of mitigating risk on these long-term fixed rate products, management monitors the number, outstanding balance and other amounts related to these loans to determine when changes should be made to the terms of the loans offered. While a small number of fixed-rate loans are retained in portfolio, most fixed rate loans originated since the opening of the loan origination office have been originated for sale in the secondary market. Management also utilizes FHLB advances with terms that correspond with the terms of the loan products.

Critical Accounting Policies. The Company uses estimates and assumptions in its financial statements in accordance with generally accepted accounting principles. Material or critical estimates that are susceptible to significant change include the determination of the allowance for loan losses and the associated provision for loan losses, as well as the estimation of fair value for a number of the Company's assets.

Allowance for Loan Losses. Management recognizes that loan losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Management of the Savings Bank assesses the allowance for loan losses on a monthly basis, through the analysis of several different factors including delinquency, charge-off rates and the changing risk profile of the Company's loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

Management believes that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period. This may require management to make assumptions about losses on loans; and the impact of a sudden large loss could require increased provisions, which would negatively affect earnings.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries.

Estimation of Fair Value. The estimation of fair value is significant to a number of the Company's assets, including securities and real estate owned. These are all recorded at either fair value or at the lower of cost or fair value. Declines in fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Furthermore, accounting principles generally accepted in the

United States require disclosure of the fair value of financial instruments as a part of the notes to the consolidated financial statements. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates and the shape of yield curves.

Comparison of Financial Condition at June 30, 2007 and June 30, 2006

General. The most significant change in the Company's financial condition during the year ended June 30, 2007 was an increase in net loans receivable of $17.0 million. This increase was funded primarily by an increase of $10.9 million in deposits and $2.1 million in customer funds invested in retail repurchase agreements, which the Savings Bank began to offer in December 2006.

Total Assets. Total assets increased $12.9 million, or 5.7%, to $241.3 million at June 30, 2007 from $228.4 million at June 30, 2006. The increase was primarily attributable to a $17.0 million increase in loans receivable which was partially offset by a decrease of $3.5 million in cash, certificates of deposit and securities.

Cash and Cash Equivalents. Cash and cash equivalents was $21.0 million at June 30, 2007 compared to $23.5 million at June 30, 2006, a decrease of $2.4 million, or 10.4%. The decrease was the result of using available cash to fund loan growth, which exceeded the growth of deposits and the funds provided by the introduction of retail repurchase agreements. Additionally, during the year the Savings Bank re-evaluated and reduced the level of cash on hand in the main office and the branch offices.

Certificates of Deposit. Certificates of deposit purchased as investments decreased $3.1 million to $747,000 at June 30, 2007 from $3.8 million at June 30, 2006. As certificates of deposit purchased matured during the year ended June 30, 2007, the proceeds were used to fund loans and purchase mortgage-backed securities.

Securities. Securities increased $2.0 million to $42.1 million at June 30, 2007 from $40.1 million at June 30, 2006. Proceeds from the sales, maturities, calls and prepayments on securities were reinvested, along with other excess funds, primarily in mortgage-backed securities. The available-for-sale portfolio increased by $10.4 million, or 50.0%, to $31.3 million at June 30, 2007 from $20.9 million at June 30, 2006. The held to maturity portfolio decreased by $8.4 million, or 43.9%, to $10.8 million at June 30, 2007 from $19.2 million at June 30, 2006. This change was the result of a decision to allow the held to maturity portfolio to run off through maturities while new purchases were categorized as available-for-sale, providing the greatest level of flexibility in the investment portfolio.

Loans Receivable. Net loans receivable increased from $142.0 million at June 30, 2006 to $159.0 million at June 30, 2007. The $17.0 million, or 12.0%, increase was the result of loan originations exceeding paydowns and payoffs on loans. Real estate loan originations increased by $16.1 million, or 42.2%, to $54.3 million for the year ended June 30, 2007 compared to $38.2 million for the year ended June 30, 2006. Commercial real estate, multi-family and land loan originations increased by $13.9 million, while one-to-four family loan originations increased by $2.2 million. Fiscal 2007 saw the reversal of the declines in the Savings Bank's outstanding loan total that had taken place over the previous five years.

Non-accrual Loans. Non-accrual loans increased from $841,000 at June 30, 2006 to $2.9 million at June 30, 2007. The increase in non-accrual loans between June 30, 2006 and June 30, 2007 was due in large part to five loans involving two borrowers. In one case, four loans totaling over $1.6 million were put on non-accrual when the borrower filed for protection under the bankruptcy laws. While reorganization was the stated goal in bankruptcy, the situation evolved to

the point where liquidation is the most probable outcome. The other loan, with a balance of $512,000 has proceeded to liquidation as well. The allowance for loan losses was increased to cover the anticipated shortfall between the loan balances and the Small Business Administration guarantees and anticipated proceeds from liquidation of both the real estate and other collateral.

Non-performing Assets. Non-performing assets increased $2.2 million from $1.3 million at June 30, 2006 to $3.5 million at June 30, 2007. At June 30, 2007, the ratio of non-performing assets to total assets was 1.47% compared to 0.59% at June 30, 2006. The Savings Bank's non-performing loans consist of non-accrual loans and past due loans over 90 days. Non-performing assets also include real estate owned and other repossessed assets.

The Savings Bank has identified an additional $4.8 million of credits at June 30, 2007 on its internal watch list including $3.0 million, $805,000, $989,000 and $96,000 of commercial real estate, commercial business, one-to-four family and consumer loans, respectively. Management has identified these loans as high risk credits and any deterioration in their financial condition could increase the classified loan totals.

Deposits. Deposits increased $10.9 million, or 6.1%, to $190.1 million at June 30, 2007 from $179.2 million at June 30, 2006. The single most important factor in the increase in deposits was the introduction in December 2006 of a money market savings product. The money market savings account had $36.3 million in balances at June 30, 2007, while regular savings decreased $10.8 million, checking and money market accounts, decreased $13.9 million and certificates of deposit decreased $7.9 million. The rates paid by the Savings Bank on deposits, with the exception of special offerings and specifically designed accounts, usually fall in the middle of the range of rates offered by the Savings Bank's competitors.

Retail Repurchase Agreements and Borrowings. In December 2006, the Savings Bank began to offer retail repurchase agreements. This was done to provide an additional product for its existing customer base and to attract new customers who would find the product beneficial. Customers with large balances in checking accounts benefit by having those balances which exceed a predetermined level "swept" out of the checking account and into a retail repurchase account. The repurchase account earns interest at a floating market rate and is uninsured. However, the balance is collateralized by designated investment securities of the Savings Bank. At June 30, 2007, the balances of retail repurchase agreements totaled $2.1 million. Advances from the Federal Home Loan Bank of Des Moines were $22.0 million at both June 30, 2007 and June 30, 2006. During the year the Savings Bank borrowed an additional $3.0 million from the Federal Home Loan Bank of Des Moines and a $3.0 million callable advance was called. There was no other borrowed money during the year ended June 30, 2007.

Stockholders' Equity. Stockholders' equity was $26.5 million at June 30, 2007 compared to $26.3 million at June 30, 2006. The $178,000 increase was the result of net income of $272,000 and an increase in paid-in-capital of $84,000, which resulted from the implementation of FASB 123R in regard to stock based compensation. These increases were partially offset by the payment of dividends of $124,000, or $0.08 per share, the repurchase of the Company's common shares totaling $27,000, and a $27,000 addition to net unrealized losses on securities. At June 30, 2007, there were 1,550,815 shares of stock outstanding compared to 1,552,480 shares outstanding at June 30, 2006. The decrease in the Company's outstanding shares is the result of the Company's stock repurchases. The book value per share increased to $17.07 at June 30, 2007 from $16.93 at June 30, 2006.

Comparison of Operating Results for the Years Ended June 30, 2007 and June 30, 2006

Net Income. Net income increased $445,000 from a net loss of $173,000 for the fiscal year ended June 30, 2006 to net income of $272,000 for the fiscal year ended June 30, 2007. The

12

increase was primarily attributable to an $823,000 increase in non-interest income and a $1.1 million decrease in provision for loan losses. These items were partially offset by a decrease of $556,000 in net interest income and an increase in non-interest expense of $943,000.

Net Interest Income. Net interest income decreased $556,000, or 8.0%, to $6.4 million for the fiscal year ended June 30, 2007 from $6.9 million for the fiscal year ended June 30, 2006. Total interest expense increased $1.4 million, while total interest income increased by $812,000.

Interest Income. Interest income increased $812,000, or 6.3%, to $13.7 million for the fiscal year ended June 30, 2007, from $12.9 million for the fiscal year ended June 30, 2006. Interest income on loans receivable increased by $532,000, or 5.1%, to $10.9 million for the fiscal year ended June 30, 2007 from $10.4 million for the fiscal year ended June 30, 2006. During the year ended June 30, 2007, the average balance of net loans outstanding increased $4.6 million, or 3.1%, to $152.2 million from $147.5 million for the fiscal year ended June 30, 2006. In addition, the yield on net loans outstanding increased to 7.19% in fiscal 2007 from 7.06% in fiscal 2006, due to origination of loans at higher market rates.. Total originations of loans were $81.7 million, while repayments on loans were $60.6 million.

Interest income from securities increased $133,000, or 7.4% to $1.9 million for the year ended June 30, 2007 from $1.8 million for the year ended June 30, 2006. The increase was the result of an increase in the yield on securities to 4.46% for fiscal 2007 from 3.70% for fiscal 2006, which was partially offset by a decrease of $5.2 million, or 10.8%, in the average balance of securities to $43.2 million in fiscal 2007 from $48.5 million in fiscal 2006.

Interest income from other interest-earning assets (primarily overnight funds) increased $147,000, or 20.7%, to $853,000 for the fiscal year ended June 30, 2007 from $706,000 for the fiscal year ended June 30, 2006. The increase is attributable to an increase in the yield on other interest-earning assets from 3.57% for the year ended June 30, 2006 to 5.33% for the year ended June 30, 2007, which was partially offset by a decrease in the average balance of other interest-earning assets from $19.8 million in fiscal 2006 to $16.0 million during fiscal 2007.

Interest Expense. Interest expense for the fiscal year ended June 30, 2007 increased $1.4 million, or 22.8%, to $7.4 million from $6.0 million for the fiscal year ended June 30, 2006. Expense on interest-bearing customer deposits increased by $1.5 million, or 34.2%, to $5.9 million for fiscal 2007 from $4.4 million for fiscal 2006. This increase was the result of an increase in the average rate paid on deposits to 3.50% for the fiscal year ended June 30, 2007 from 2.60% for the fiscal year ended June 30, 2006. The increase in the average cost of deposits was the result of increased short-term interest rates during fiscal 2007, maturities of lower costing time deposits and the money market savings product, which the Savings Bank began to offer in December 2006.

The Savings Bank added retail repurchase agreements to its product mix during fiscal 2007 which resulted in interest expense of $21,000 for the year. Interest expense on other interest-bearing liabilities decreased $170,000, or 10.9%, to $1.4 million for the fiscal year ended June 30, 2007 from $1.6 million for the fiscal year ended June 30, 2006. The decrease was the result of a decrease of $3.8 million in the average balance of other interest bearing liabilities from $27.8 million for fiscal 2006 to $24.1 million for fiscal 2007, which was partially offset by an increase in the average cost of these liabilities from 5.59% in fiscal 2006 to 5.76% in fiscal 2007.

Provision for Loan Losses. The provision for loan losses decreased $1.1 million, or 72.0%, to $426,000 for the fiscal year ended June 30, 2007 from $1.5 million for the fiscal year ended June 30, 2006. As the result of increasing problem loans beginning in fiscal 2005, the Savings Bank was required to significantly increase the allowance for loan losses. The allowance for loan losses was $2.5 million, or 1.67%, of gross loans at June 30, 2006 compared to $2.7 million, or 1.59%,

13

of gross loans at June 30, 2007. Loan charge-offs, net of recoveries, of First Home originated loans was $208,000 for the fiscal year ended June 30, 2007 compared to $1.9 million for the fiscal year ended June 30, 2006. The decrease in net loan losses was the result of many of the loans identified as problems in fiscal 2005 having been charged off during fiscal year 2006. Most of the increase in non-accrual loans during the year ended June 30, 2007 was in loans with SBA guarantees.

Non-interest Income. Non-interest income increased $823,000, or 55.6%, to $2.3 million for the fiscal year ended June 30, 2007 compared to $1.5 million for the fiscal year ended June 30, 2006. During fiscal 2007 the Company recorded profit on the sale of securities available-for-sale of $177,000 and gains on the sale of property and equipment and real estate owned of $58,000 compared to losses of $161,000 and $380,000 in these categories, respectively, in fiscal 2006. Additionally, there was a provision for an other-than-temporary impairment of available-for-sale securities of $260,000 recorded in fiscal 2006 which did not recur in fiscal 2007. The Savings Bank opened a loan origination office in March 2007 and, as a result of its operations, recorded gain on the sale of loans of $139,000 in fiscal 2007. The Company does not expect income from loan sale activities to increase significantly in the near term, and such income may decrease, due to the currently unfavorable conditions in the secondary market for mortgage loans. These increases were offset by write downs of $271,000 in the carrying value of real estate held for investment. These write downs were based on updated real estate appraisals. The new appraisals were required in order to begin to market the properties. Additionally, there were decreases of $71,000, $3,000 and $8,000 in service charges and other fee income, income from bank owned life insurance and other non-interest income, respectively.

Non-interest Expense. Non-interest expense increased $943,000, or 13.2%, to $8.1 million for the fiscal year ended June 30, 2007 from $7.2 million for the fiscal year ended June 30, 2006.

Compensation and employee benefits increased $314,000, or 7.9%, to $4.3 million for the fiscal year ended June 30, 2007 from $4.0 million for the fiscal year ended June 30, 2006. Compensation increased by $530,000 due to staffing the new branch and the loan production office, and additional staffing at senior level positions. During the fiscal year ended June 30, 2007, the Company began to account for stock based compensation under FASB 123R, which requires expense to be recorded through the income statement. This resulted in an increase of $85,000 in compensation and benefits. These increases were partially offset by reductions of $211,000 and $180,000 in defined benefit pension plan expense and group health insurance costs, respectively. The decrease in defined benefit pension plan expense was the result of freezing the plan in March 2006, which reduced the annual contribution to administrative costs and significantly lowered funding requirements. The decrease in health insurance costs was the result of requiring employees to pay for a portion of the monthly cost of their coverage. In addition to these decrease, the amount of compensation deferred under FASB 91 as part of the cost of loan origination increased due to the increase in loan volume in fiscal 2007 compared to fiscal 2006

Occupancy and equipment expense for the fiscal year ended June 30, 2007 increased $422,000, or 38.2%, to $1.5 million from $1.1 million during the fiscal year ended June 30, 2006. The increase was partially attributable to the opening of a new branch office in July 2006 and a loan production office in March 2007. Both facilities are located in Springfield, Missouri and both are leased. In addition, the Savings Bank has addressed some maintenance issues at the main office and the other branches. Upgrades and additions in computer hardware and software also resulted in increased costs, either directly or through increases in depreciation expense.

Professional fees increased $285,000, or 106.3%, from $268,000 in fiscal 2006 to $554,000 in fiscal 2007. This resulted from the use of an outside accounting firm to handle monthly closing of books, reporting and other tasks during a two month period when the Company was without a CFO and incurred higher legal and auditing costs.

Customer account processing fees (check processing expenses incurred by the

Savings Bank) of $289,000 in fiscal 2006 were eliminated with the installation of the check imaging system at the end of June 2006. In addition, there was a savings of $58,000 in courier expenses which were also eliminated by check imaging.

Deposit insurance premiums decreased $2,000 as a result of lower balances in customer deposits at the calculation dates for these semi-annual assessments. Most of the deposit growth occurred in the second half of fiscal 2007. Deposit insurance costs during fiscal 2008 are anticipated to increase by approximately five times over fiscal 2007, without considering deposit growth. This is the result of increased assessments by the FDIC.

Other non-interest expense increased $212,000, or 14.4%, including increases of $106,000, $71,000, $35,000 and $29,000 in office supplies, computer data lines, printing costs and employee education, respectively. These items related to additional facilities, changes in procedures and upgrades in computer technology.

Income Taxes. Income tax benefit for the fiscal year ended June 30, 2007 increased $26,000 to a benefit of $117,000 from a benefit of $91,000 for fiscal 2006.

Net Interest Margin. Net interest margin for the fiscal year ended June 30, 2007 was 3.01% compared to 3.21% for the fiscal year ended June 30, 2006. The decrease was the result of the cost on interest-bearing liabilities increasing more rapidly than the yield on interest-earning assets. While the ratio of interest-earning assets to interest-bearing liabilities remained almost unchanged during fiscal 2007 compared to fiscal 2006, the interest rate spread between interest-earning assets and interest-bearing liabilities decreased 0.25% from 2.96% to 2.71%.

Average Balances, Interest and Average Yields/Costs

The earnings of the Savings Bank depend largely on the spread between the yield on interest-earning assets (primarily loans and securities) and the cost of interest-bearing liabilities (primarily deposit accounts and FHLB advances), as well as the relative size of the Savings Bank's interest-earning assets and interest-bearing liability portfolios.

The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin, and ratio of average interest-earning assets to average interest-bearing liabilities.

	Years Ended June 30,					
	2007			2006		
	Average Balance(2)	Interest and Dividends	Yield/ Cost	Average Balance(2)	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						

Loans(1)	$152,182	$10,945	7.19%	$147,536	$10,413	7.06%
Securities	43,229	1,927	4.46	48,463	1,793	3.70
Other	15,999	853	5.33	19,762	706	3.57
Total interest-earning assets	211,410	13,725	6.49	215,761	12,912	5.98
Non-interest earning assets						
Office properties and equipment, net	8,075			5,779		
Real estate, net	325			2,766		
Other non-interest earning assets	14,332			14,576		
Total assets	$234,142			$238,882		
Interest-bearing liabilities:						
Savings and Money Market savings accounts	$ 33,392	1,193	3.57	$ 16,828	231	1.37
Checking and Super Saver accounts	51,041	753	1.48	62,558	856	1.37
Certificates of deposit	85,471	4,000	4.68	90,756	3,343	3.68
Total deposits	169,904	5,946	3.50	170,142	4,430	2.60
Retail repurchase agreements	575	21	3.65	-	-	
Advances from Federal Home Loan Bank	24,077	1,387	5.76	27,849	1,556	5.59
Total interest-bearing liabilities	194,556	7,354	3.78	197,991	5,986	3.02
Non-interest bearing liabilities:						
Other liabilities	13,074			13,363		
Total liabilities	207,630			211,354		
Stockholders' equity	26,512			27,528		
Total liabilities and stock-holders' equity	$234,142			$238,882		
Net interest income		$ 6,371			$ 6,926	
Interest rate spread			2.71%			2.96%
Net interest margin			3.01%			3.21%
Ratio of average interest-earning assets to average interest-bearing liabilities	109%			109%		

(1) Average balances include non-accrual loans and loans 90 days or more past due. The corresponding interest up to the date of non-accrual status has been included in the "Interest and Dividends" column.
(2) Average balances for a period have been calculated using the average monthly balances for the respective year.

16

Yields Earned and Rates Paid

The following table sets forth (on a consolidated basis) for the periods and at the date indicated, the weighted average yields earned on the Company's and First Home's assets, the weighted average interest rates paid on First Home's liabilities, together with the net yield on interest-earning assets.

	At June 30,	Years Ended June 30	
	2007	2007	2006
Weighted average yield on loan portfolio	7.45 %	7.19 %	7.06 %
Weighted average yield on securities	4.66	4.72	3.70
Weighted average yield on other interest-earning assets	4.85	4.61	3.57
Weighted average yield on all interest-earning assets	6.71	6.49	5.98
Weighted average rate paid on total deposits	3.79	3.50	2.60
Weighted average rate paid on retail repurchase agreements	4.25	3.65	-
Weighted average rate paid on other interest-bearing liabilities	5.75	5.76	5.59
Weighted average rate paid on All interest-bearing liabilities	4.01	3.78	3.02
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	2.70	2.71	2.96
Net interest margin (net interest income (expense) as a percentage of average interest-earning assets)	N/A	3.01	3.21

Rate/Volume Analysis

The following table presents certain information regarding changes in interest income and interest expense of the Company and Savings Bank for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to (i) effects on interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income and interest expense attributable to changes in rate (changes in rate multiplied by prior volume); (iii) the net changes (the sum of the previous columns). The effects on interest income and interest expense attributable to changes in both rate and volume are allocated to the change in volume variance and the change in the rate variance on a pro rated basis.

	Years Ended June 30, 2007 Compared to 2006 Increase/(Decrease) Due to			Years Ended June 30, 2006 Compared to 2005 Increase/(Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest-earning assets:						
Loans (1)	$ 333	$ 200	$ 533	$(1,116)	$ 216	$ (900)
Securities	(194)	441	247	84	203	287
Other	(134)	166	32	(69)	329	260
Total net change in income on interest-earnings assets	5	807	812	(1,101)	748	(353)
Interest-bearing liabilities:						
Interest-bearing deposits	(7)	1,523	1,516	(288)	1,263	975
Retail repurchase agreements	21	-	21	-	-	-
Other interest-bearing liabilities	(199)	30	(169)	(79)	(1)	(80)
Total net change in expense on interest-bearing liabilities	(185)	1,553	1,368	(367)	1,262	895
Net change in net interest income	$ 190	$ (746)	$ (556)	$ (734)	$ (514)	$(1,248)

(1) Includes interest on loans 90 days or more past due not on non-accrual status.

Liquidity and Capital Resources

First Home's primary sources of funds are proceeds from principal and interest payments on loans and securities, customer deposits, customer retail repurchase agreements and FHLB advances. While maturities and scheduled amortization of loans and securities are a relatively predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activity of First Home is the origination of mortgage loans. Mortgage loans originated by First Home increased by $16.1 million to $54.3 million for the year ended June 30, 2007 from $38.2 million for the year ended June 30, 2006. Other investing activities include the purchase of securities, which totaled $19.2 million and $15.3 million for the years ended

June 30, 2007 and 2006, respectively. These activities were funded primarily by principal repayments on loans, securities, and deposit growth.

OTS regulations require First Home to maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. First Home's sources of funds include customer deposits, customer retail repurchase agreements, principal and interest payments from loans and securities, and FHLB advances. During fiscal years 2007 and 2006, First Home used its sources of funds primarily to purchase securities, fund loan commitments and to pay maturing savings certificates and deposit withdrawals. At June 30, 2007, First Home had approved loan commitments totaling $5.1 million and undisbursed loans in process totaling $1,000.

Liquid funds necessary for the normal daily operations of First Home are maintained in checking accounts, a daily time account with the FHLB - Des Moines and a repurchase agreement account at a regional bank. It is the Savings Bank's current policy to maintain adequate collected balances in 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 checking accounts and transferred, when appropriate, to the daily time account, used to purchase investments or reduce FHLB advances to enhance net interest income.

At June 30, 2007, certificates of deposit amounted to $83.3 million, or 43.8%, of First Home's total deposits, including $57.8 million which are scheduled to mature by June 30, 2008. Historically, First Home has been able to retain a significant amount of its deposits as they mature. Management of First Home believes it has adequate resources to fund all loan commitments with savings deposits and FHLB advances and that it can adjust the offering rates of savings certificates to retain deposits in changing interest rate environments.

Capital

OTS regulations require First Home to maintain specific amounts of capital. As of June 30, 2007, First Home was in compliance with all current regulatory capital requirements with tangible, core and risk-based capital ratios of 10.1%, 10.1% and 17.1%, respectively. These ratios exceed the 1.5%, 4.0% and 8.0% tangible, core and risk-based capital ratios required by OTS regulations. In addition, the OTS amended its capital regulations that require savings institutions to maintain specified amounts of regulatory capital based on the estimated effects of changes in market rates and that could further increase the amount of regulatory capital required to be maintained by the Savings Bank.

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a "well capitalized" institution in accordance with regulatory standards. Total equity capital was $26.5 million at June 30, 2007, or 10.97%, of total assets on that date. As of June 30, 2007, we exceeded all regulatory capital requirements. Our regulatory capital ratios at June 30, 2007 were as follows: Tier 1 (core) capital 10.11%; Tier 1 risk-based capital 15.90%; and total risk-based capital 17.13%. The regulatory capital requirements to be considered well capitalized are 5%, 6% and 10%, respectively.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of our customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Since some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Collateral is not required to support commitments.

Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed to, home equity, commercial and consumer lines of credit.

Commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily used to support

public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances where we deem it necessary.

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of June 30, 2007:

Commitments to originate loans

	(In thousands)
Fixed rate	$ 5,098
Adjustable rate	-
Undisbursed balance of loans closed	1
Unused lines of credit	2,514
Commercial stanby letters of credit	713
Total	$ 8,326

Accounting Policies

Various elements of the Company's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, as a result of the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the financial statements of the Company. These policies relate to the methodology for the determination of the provision and allowance for loan losses and the valuation of real estate held for sale. These policies and the judgments, estimates and assumptions are described in greater detail in this Management's Discussion and Analysis of Financial Condition and Results of Operations section and in the section entitled "New accounting standards" contained in Note 1 of the Notes to Consolidated Financial Statements. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, because of the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the results of operations or financial condition.

Effect of Inflation and Changing Prices

The Consolidated Financial Statements and related financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in relative purchasing power of money over time due to inflation. The primary impact of inflation on operations of First Home is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services. During the current interest rate environment, management believes that the liquidity and the maturity structure of First Home's assets and liabilities are critical to the maintenance of acceptable profitability.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity of Net Portfolio Value. The following table sets forth the change in the Savings Bank's net portfolio value at June 30, 2007, based on Office of Thrift Supervision ("OTS") models, and to a lesser extent, internal assumptions that would occur upon an immediate change in interest rates with no effect given to any steps that management might take to counteract that change. Net portfolio value is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in net portfolio value that will occur upon an immediate change in interest rates of at least 200 basis points with no effect given to any steps that management might take to counter the effect of that interest rate movement.

	Net Portfolio Value			Net Portfolio as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	Dollar Amount	Dollar Change(1)	Percent Change	Net Portfolio Value Ratio(2)	Change(3)
			(Dollars in thousands)		
300 bp	$ 34,436	$ (4,224)	(11) %	14.05 %	(135) bp
200	35,788	(2,872)	(7)	14.49	(91)
100	36,961	(1,699)	(4)	14.87	(53)
-	38,660	-	-	15.40	-
(100)	39,454	790	1	15.61	21
(200)	38,688	28	2	15.29	11

(1) Represents the increase (decrease) of the estimated net portfolio value at the indicated change in interest rates compared to the net portfolio value assuming no change in interest rates.
(2) Calculated as the estimated net portfolio value divided by the portfolio value of total assets.
(3) Calculated as the increase (decrease) of the net portfolio value ratio assuming the indicated change in interest rates over the estimated net portfolio value ratio assuming no change in interest rates.

The above table illustrates, for example, that at June 30, 2007 an instantaneous 200 basis point increase in market interest rates would decrease the Savings Bank's net portfolio value by approximately $2.9 million, or 7%, and an instantaneous 200 basis point decrease in market interest rates would increase the Savings Bank's net portfolio value by $28,000, or 2%.

The following summarizes key exposure measures for the dates indicated. They measure the change in net portfolio value ratio for a 200 basis point adverse change in interest rates.

	June 30, 2007	March 31, 2007	June 30, 2006
Pre-shock net portfolio Value ratio	15.40%	14.72%	14.63%
Post-shock net portfolio Value ratio	14.49%	13.94%	13.87%
Decline in net portfolio Value ratio	91 bp	78 bp	76 bp

The calculated risk exposure measures indicate the Savings Bank's interest rate risk at June 30, 2007 has increased from the previous year end, in that the "shock" increase in market rates would have a relatively small negative effect on net portfolio value.

The OTS uses certain assumptions in assessing the interest rate risk of thrift institutions. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market

values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or period to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

Report of Independent Registered Public Accounting Firm

To the Board of Directors
First Bancshares, Inc.
Mountain Grove, Missouri

We have audited the accompanying consolidated statements of financial condition of First Bancshares, Inc. and subsidiaries as of June 30, 2007 and 2006 and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bancshares, Inc. and subsidiaries as of June 30, 2007 and 2006 and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Statement No. 123(R), effective July 1, 2006.

/s/McGladrey & Pullen, LLP

Kansas City, Missouri
September 28, 2007

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

June 30, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	$ 21,030,321	$ 23,473,645
Certificates of deposit purchased	746,632	3,826,847
Securities available-for-sale	31,321,225	20,883,868
Securities held to maturity	10,786,182	19,209,895
Federal Home Loan Bank stock, at cost	1,613,800	1,611,800
Loans receivable, net	158,992,921	141,986,975
Accrued interest receivable	1,259,460	1,177,502
Prepaid expenses	360,375	292,024
Property and equipment, net	7,506,862	8,028,309
Real estate owned and other repossessed assets	293,337	496,721
Intangible assets, net	285,584	335,699
Deferred tax asset, net	817,373	718,472
Income taxes recoverable	86,380	316,756
Bank-owned life insurance	5,919,973	5,705,493
Other assets	310,334	330,597
Total assets	$241,330,759	$228,394,603
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$190,090,359	$179,141,140
Retail repurchase agreements	2,103,105	-
Advances from Federal Home Loan Bank	22,000,000	22,000,000
Accrued expenses	669,202	962,894
Total liabilities	214,862,666	202,104,034
Commitments and contingencies (Note 13)		
Preferred stock, $.01 par value; 2,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value; 8,000,000 shares authorized, issued 2,895,036 in 2007 and in 2006, outstanding 1,550,815 in 2007 and 1,552,480 in 2006	28,950	28,950
Paid-in capital	17,936,224	17,851,736
Retained earnings - substantially restricted	27,850,962	27,703,268
Treasury stock, at cost - 1,344,221 shares in 2007 and 1,342,556 shares in 2006	(19,112,627)	(19,085,173)
Accumulated other comprehensive loss	(235,416)	(208,212)
Total stockholders' equity	26,468,093	26,290,569
Total liabilities and stockholders' equity	$241,330,759	$228,394,603

See notes to the consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2007 and 2006

	2007	2006
Interest Income:		
Loans receivable	$ 10,944,655	$ 10,412,821
Securities	1,926,562	1,793,140
Other interest-earning assets	853,090	706,582
Total interest income	13,724,307	12,912,543
Interest Expense:		
Deposits	5,946,278	4,430,111
Retail repurchase agreements	21,223	-
Advances from Federal Home Loan Bank	1,386,582	1,556,494
Total interest expense	7,354,083	5,986,605
Net interest income	6,370,224	6,925,938
Provision for loan losses	426,000	1,520,083
Net interest income after Provision for loan losses	5,944,224	5,405,855
Non-interest Income:		
Service charges and other fee income	1,802,231	1,873,041
Gain on the sale of loans	139,161	-
Gain (loss) on sale of securities	177,000	(161,299)
Gain (loss) on sale of property and equipment and real estate owned	57,913	(380,040)
Write-down on real estate held for investment	(271,009)	-
Provision for impairment of securities available-for-sale	-	(260,260)
Income from bank-owned life insurance	214,480	217,113
Other	184,190	192,665
Total non-interest income	2,303,966	1,481,220
Non-interest Expense:		
Compensation and employee benefits	4,307,930	3,993,840
Occupancy and equipment	1,527,115	1,104,746
Professional fees	553,852	268,458
Customer deposit account processing fees	-	289,184
Deposit insurance premiums	22,290	24,185
Other	1,682,550	1,470,725
Total non-interest expense	8,093,737	7,151,138
Income (loss) before income taxes	154,453	(264,063)
Income taxes (benefit)	(117,407)	(91,236)
Net income (loss)	$ 271,860	$ (172,827)
Basic earnings (loss) per share	$ 0.18	$ (0.11)
Diluted earnings (loss) per share	$ 0.18	$ (0.11)

See notes to the consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended June 30, 2007 and 2006

	Common Stock					Other	St
	Shares	Amount	Paid-in Capital	Retained Earnings	Treasury Stock	Comprehensive Income (Loss)	
Balances at June 30, 2005	1,552,010	$28,930	$17,829,014	$28,124,572	$(19,059,171)	$ (106,016)	$
Comprehensive income:							
Net loss	-	-	-	(172,827)	-	-	
Other comprehensive income, net of tax:							
Change in unrealized gain(loss) on securities available-for-sale, net of deferred income taxes of $(215,490)	-	-	-	-	-	(367,778)	
Less: reclassification adjustment, net of deferred income taxes of $155,977	-	-	-	-	-	255,582	
Total Comprehensive Income (Loss)							
Proceeds from exercise of stock options	2,000	20	16,480	-	-	-	
Tax Benefit from stock options exercised	-	-	7,242	-	-	-	
Cash dividends ($.16 per share)	-	-	-	(248,477)	-	-	
Purchase of treasury stock at cost	(1,530)	-	-	-	(26,002)	-	
Balances at June 30, 2006	1,552,480	28,950	17,851,736	27,703,268	(19,085,173)	(208,212)	
Comprehensive income:							
Net income	-	-	-	271,860	-	-	
Other comprehensive income, net of tax:							
Change in unrealized gain(loss) on securities available-for-sale, net of deferred							

income taxes of $(14,014)	-	-	-	-	-	(204,204)	
Add: reclassification adjustment	-	-	-	-	-	177,000	-
Total Comprehensive Income							-
Adjustment for stock option costs	-	-	84,488	-	-	-	
Cash dividends ($.08 per share)	-	-	-	(124,166)	-	-	
Purchase of treasury stock at cost	(1,665)	-	-	-	(27,454)	-	
Balances at June 30, 2007	1,550,815	$28,950	$17,936,224	$27,850,962	$(19,112,627)	$ (235,416)	$

See notes to the consolidated financial statements

26

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income (loss)	$ 271,860	$ (172,827)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	757,492	648,371
Amortization	50,115	70,411
Net premiums and (discounts) on securities	(105,339)	48,836
Stock based compensation	84,488	-
(Gain) loss on sale of securities	(177,000)	161,299
Provision for impairment of securities	-	260,260
Provision for loan losses	426,000	1,520,083
Provision for loss on real estate owned	7,000	-
Write down on real estate held for investment	271,009	-
Deferred income taxes	(98,579)	59,826
(Gain) loss on sale of property and equipment and real estate owned	(66,618)	380,040
Increase in cash surrender value on bank-owned life insurance	(214,480)	(217,113)
Net change in operating accounts:		
Accrued interest receivable, prepaid expenses and other assets	(130,048)	201,303
Deferred loan costs	13,744	17,480
Income taxes recoverable	230,376	-
Accrued expenses	(293,691)	(355,003)
Net cash provided by operating activities	1,026,329	2,622,966

Cash flows from investing activities:		
Purchase of securities available-for-sale	(18,902,694)	(13,281,210)
Purchase of securities held-to-maturity	(345,000)	(2,000,000)
Proceeds from sale of securities available-for-sale	1,986,000	6,845,018
Proceeds from maturities of securities available-for-sale	6,513,834	3,920,093
Proceeds from maturities of securities held-to-maturity	8,961,543	6,894,219
Purchase of Federal Home Loan Bank stock	(85,600)	-
Proceeds from redemption of Federal Home Loan Bank stock	83,600	292,500
Net change in certificates of deposit	3,080,215	(851,719)
Net change in loans receivable	(17,951,445)	14,299,031
Purchases of property and equipment	(624,727)	(1,515,728)
Proceeds from sale of property and equipment	92,636	228,088
Proceeds from payments on note receivable	-	3,253
Net proceeds from sale of real estate owned	821,281	431,244
Net cash provided by (used in) investing activities	(16,370,357)	15,567,789

FIRST BANCSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended June 30, 2007 and 2006

	2007	2006
Cash flows from financing activities:		
Net change in deposits	$ 10,949,219	$(8,001,566)
Net change in retail repurchase agreements	2,103,105	-
Payments on borrowed funds	(3,000,000)	(7,074,036)
Proceeds from borrowed funds	3,000,000	-
Proceeds from issuance of common stock	-	15,500
Cash dividends paid	(124,166)	(248,477)
Purchase of treasury stock	(27,454)	(26,002)
Net cash provided by (used in) financing activities	12,900,704	(15,334,581)
Net increase (decrease) in cash and cash equivalents	(2,443,324)	2,856,174
Cash and cash equivalents - beginning of period	23,473,645	20,617,471
Cash and cash equivalents - end of period	$ 21,030,321	$ 23,473,645

Supplemental disclosures of cash flow information:
Cash paid during the year for:
Interest on deposits and

other borrowings	$ 7,342,359	$ 5,867,445
Income taxes	18,585	137,109
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to real estate owned	$ 533,243	$ 322,666
Land transferred to other real estate owned	-	285,000

See notes to consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business - First Bancshares, Inc., a Missouri corporation ("Company"), was organized on September 30, 1993 for the purpose of becoming a unitary savings and loan holding company for First Home Savings Bank ("Savings Bank"). The Savings Bank is primarily engaged in providing a full range of banking and mortgage services to individual and corporate customers in southern Missouri. The Company and Savings Bank are also subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries, the Savings Bank and SCMG, Inc. (formerly South Central Missouri Title, Inc.) and the wholly-owned subsidiaries of the Savings Bank, Fybar Service Corporation and First Home Investments. In consolidation, all significant intercompany balances and transactions have been eliminated.

Estimates - In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the fair value of financial instruments and the allowance for loan losses.

Segment reporting - An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and evaluate performance. The

Company has one operating segment, community banking.

Consolidated statements of cash flows - For purposes of the consolidated statements of cash flows, cash consists of cash on hand and deposits with other financial institutions. Cash equivalents include highly-liquid instruments with an original maturity of three months or less.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities - Securities which are designated as held-to-maturity are designated as such because the Company has the ability and intent to hold these securities to maturity. Such securities are reported at amortized cost.

All other securities are designated as available-for-sale, a designation which provides the company with certain flexibility in managing its investment portfolio. Such securities are reported at fair value; net unrealized gains and losses are excluded from income and reported net of applicable income taxes as a separate component of stockholders' equity.

Interest income on securities is recognized on the interest method according to the terms of the security. Gains or losses on sales of securities are recognized in operations at the time of sale and are determined by the difference between the net sales proceeds and the cost of the securities using the specific identification method, adjusted for any unamortized premiums or discounts. Premiums or discounts are amortized or accreted to income using the interest method over the period to maturity.

Declines in fair value of individual securities below their amortized cost that are determined to be other than temporary result in write-downs of the individual securities to their fair value with the resulting write-downs included in current earnings as realized losses. In estimating other-than-temporary impairment losses, management considers independent price quotations, projected target prices of investment analysis within the short term, the financial condition of the issuer, the length of time and the extent to which the fair value has been less than cost, and the intent and ability of the Company to retain its investment in the issues for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank stock - The Savings Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB of Des Moines. No ready market exists for this stock and it has no quoted market value.

The stock is subject to repurchase by the FHLB at par and is reported at cost.

Loans receivable - Loans receivable are stated at their principal amount outstanding, net of deferred loan origination and certain direct costs. Loan origination and certain direct loan origination costs are deferred and recognized in interest income over the contractual lives of the related loans using the interest method. When a loan is paid-off, the unamortized balance of these deferred fees and costs is recognized in income.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income on loans is recognized on an accrual basis.

The accrual of interest on impaired loans is discontinued when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principal is past due 90 days or more. The interest on these loans is accounted for on the cash-basis method, until qualifying for return to accrual. Any accrued but uncollected interest previously recorded on such loans is generally reversed in the current period and interest income is subsequently recognized upon collection. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Savings Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

owed. Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Savings Bank does not separately identify individual consumer loans for impairment disclosures.

Property and equipment and related depreciation - Property and equipment has been stated at cost. Property and equipment depreciation has been principally computed by applying the following methods and estimated lives:

Category	Estimated Life	Method
Automobiles	5 Years	Straight-line
Office furniture, fixtures and equipment	3-10 Years	Straight-line
Buildings	15-40 Years	Straight-line
Investment real estate	15-40 Years	Straight-line

Intangible assets - The intangible asset relates to customer relationships that were acquired in connection with the acquisition of two branches. The premium paid by the Savings Bank for the branches is being amortized on a straight-line basis over 15 years.

Bank-owned life insurance - Bank-owned life insurance is carried at its cash surrender value. Changes in cash surrender value are recorded in non-interest income.

Income taxes - Deferred taxes are determined using the liability (or balance sheet) method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Real estate owned - Includes real estate acquired in the settlement of loans, which, is recorded at the lower of the remaining loan balance or estimated fair value less the estimated costs to sell the asset. Any write down at the time of foreclosure is charged against the allowance for loan losses. Subsequently, net expenses related to holding the property and declines in the market value are charged against income.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per share - Basic earnings per share and is computed by dividing net income available to common stockholders by the weighted average number of common 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.

Comprehensive income - Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Employee stock options - During the years ended June 30, 2007 and 2006 the Company had stock-based employee compensation plans, which are described more fully in Note 10, Employee Benefit Plans.

Beginning with fiscal 2007, the Company was required to account for stock options using Statement of Financial Accounting Standards ("SFAS") SFAS No. 123(R), "Share-Based Payment", which was issued in December 2004, by the Financial Accounting Standards Board ("FASB"). This Statement revised SFAS Statement No. 123, "Accounting for Stock-Based Compensation," amended SFAS No. 95, "Statement of Cash Flows," and superseded APB Opinion No. 25. SFAS No. 123(R). It requires that all stock-based compensation now be measured at fair value and recognized as expense in the income statement. This Statement also clarifies and expands guidance on measuring fair value of stock compensation, requires estimation of forfeitures when determining expense, and requires that excess tax benefits be shown as financing cash inflows versus a reduction of taxes paid in the statement of cash flows.

During fiscal 2006, the Company accounted for the plans under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations.

Pro forma information regarding net income was required by SFAS No. 123, and the amount was determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a fair value option pricing model.

The effect of applying the fair value method required by SFAS No. 123(R) to the Company's stock option awards resulted in net income and earnings per share

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

which are not materially different from amounts reported in the consolidated statements of income, therefore a table reconciling net income and earnings per share as reported and on a pro forma basis has not been presented.

Revenue recognition - Deposit account transaction fees and other ancillary non-interest income related to the Savings Bank's deposit and lending activities are recognized as services are performed.

Transfers of financial assets - Transfers of financial assets area accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Impairment of long-lived assets - Long-lived assets, including property and equipment, real estate held for investment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

New accounting standards - In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006, with earlier adoption permitted. Management has implemented FIN 48, and knows of no uncertain tax position that would require additional tax accruals for tax liabilities.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation or cash flows.

In February 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115, which provides all entities, including not-for-profit organizations, with an option to report selected financial assets and liabilities at fair value. The objective of the Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. Certain specified items are eligible for the irrevocable fair value measurement option as established by Statement No. 159. Statement No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of Statement No. 157, Fair Value Measurements. The Company is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operation or cash flows.

Reclassifications - Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year consolidated financial statements, with no effect on stockholders' equity or net income.

(2) SECURITIES

A summary of the securities available-for-sale at June 30, 2007 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
United States Government and Federal agency obligations	$ 6,751,838	$ -	$ (42,045)	$ 6,709,793
Obligations of states and political subdivisions	1,180,000	-	(3,502)	1,176,498
Mutual funds	23,464	-	-	23,464
Federal agency mortgage-backed securities	23,464,614	1,551	(312,695)	23,153,470
Common and preferred stocks	258,000	-	-	258,000
Total	$ 31,677,916	$ 1,551	$(358,242)	$ 31,321,225

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(2) SECURITIES (CONTINUED)

A summary of securities held to maturity at June 30, 2007 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
United States Government and Federal agency obligations	$ 6,750,000	$ 1,250	$ (56,247)	$ 6,695,003
Obligations of states and political subdivisions	2,333,655	5,775	(15,449)	2,323,981
Federal agency mortgage-backed securities	1,702,527	321	(107,173)	1,595,675
Total	$ 10,786,182	$ 7,346	$(178,869)	$ 10,614,659

The amortized cost and estimated market value of debt securities at June 30, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Amortized Cost	Available for Sale Estimated Fair Value
Due in one year or less	$ 4,310,195	$ 4,298,701
Due after one year through five years	3,066,643	3,040,484
Due after five years through ten years	555,000	547,106
Subtotal	7,931,83	7,886,291
Mutual funds	23,464	23,464
Federal agency mortgage-backed securities	23,464,614	23,153,470
Common and preferred stocks	258,000	258,000
Total	$ 31,677,916	$ 31,321,225

Held to Maturity Amortized Cost	Held to Maturity Estimated Fair Value

Due in one year or less	$ 1,850,032	$ 1,844,337
Due after one year through five years	4,814,705	4,800,325
Due after five years through ten years	1,418,918	1,407,762
Due after ten years	1,000,000	966,560
Subtotal	9,083,655	9,018,984
Federal agency mortgage-backed securities	1,702,527	1,595,675
Total	$ 10,786,182	$ 10,614,659

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(2) SECURITIES (CONTINUED)

A summary of the securities available-for-sale at June 30, 2006 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
United States Government and Federal agency obligations	$ 8,931,356	$ -	$(117,635)	$ 8,813,721
Obligations of states and political subdivisions	1,325,000	-	(6,574)	1,318,426
Mutual funds	26,236	-	-	26,236
Federal agency mortgage back securities	8,663,462	1,309	(210,286)	8,454,485
Common and preferred stocks	2,267,000	4,000	-	2,271,000
Total	$ 21,213,054	$ 5,309	$(334,495)	$ 20,883,868

A summary of securities held to maturity at June 30, 2006 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
United States Government and Federal agency obligations	$ 14,750,000	$ -	$(231,352)	$ 14,518,648
Obligations of states and political subdivisions	2,463,702	4,964	(22,212)	2,446,454
Federal agency mortgage back securities	1,996,193	617	(152,100)	1,844,710
Total	$ 19,209,895	$ 5,581	$(405,664)	$ 18,809,812

The following tables present the fair value and gross unrealized losses of the Company's securities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2007 and 2006.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(2) SECURITIES (CONTINUED)

Available-for-sale as of June 30, 2007

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Un
United States Government and Federal agency obligations	$ 1,676,465	$ (11,610)	$ 5,033,328	$ (30,435)	$ 6,709,793	$
Obligations of states and political subdivisions	1,107,819	(2,181)	68,679	(1,321)	1,176,498	
Federal agency mortgage-backed securities	16,886,532	(201,088)	5,266,010	(111,607)	22,152,542	(
Total temporarily impaired securities	$19,670,816	$(214,879)	$10,368,017	$(143,363)	$30,038,833	$(

Held to Maturity as of June 30, 2007

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Un

United States Government and Federal agency obligations	$ -	$ -	$ 4,943,753	$ (56,247)	$ 4,943,753	$
Obligations of states and political subdivisions	511,813	(3,218)	971,687	(12,231)	1,483,500	
Federal agency mortgage-backed securities	-	-	1,563,976	(107,173)	1,563,976	(
Total temporarily impaired securities	$ 511,813	$ (3,218)	$ 7,479,416	$ (175,651)	$ 7,991,229	$(

38

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(2) SECURITIES (CONTINUED)

Available-for-sale as of June 30, 2006

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Un
United States Government and Federal agency obligations	$ 6,862,156	$ (69,923)	$ 1,951,565	$ (47,712)	$ 8,813,721	$
Obligations of states and political subdivisions	1,189,867	(5,133)	128,559	(1,441)	1,318,426	
Federal agency mortgage-backed securities	6,083,340	(135,652)	1,383,049	(74,634)	7,466,389	
Total temporarily						

impaired securities	$14,135,363	$(210,708)	$ 3,463,173	$(123,787)	$17,598,536	$

Held to Maturity as of June 30, 2006

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Un
United States Government and Federal agency obligations	$ -	$ -	$ 4,943,753	$ (56,247)	$ 4,943,753	$
obligations	$ 2,429,690	$ (70,310)	$12,088,958	$ (161,042)	$14,518,648	$(
Obligations of states and political subdivisions	1,304,336	(15,725)	387,750	(6,487)	1,692,086	
Federal agency mortgage-backed securities	286,241	(9,366)	1,524,847	(142,734)	1,811,088	(
Total temporarily impaired securities	$ 4,020,267	$ (95,401)	$14,001,555	$ (310,263)	$18,021,822	$(

The unrealized losses are related to changes in interest rates and not from the deterioration in the creditworthiness of the issuer and, as such, are considered by the Company to be temporary. In addition, the Company has the ability and intent to hold these investments for a period of time sufficient to allow for an anticipated recovery.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(2) SECURITIES (CONTINUED)

The following table presents proceeds from sales of securities and the gross realized securities gains and losses.

	June 30,	
	2007	2006

Proceeds from sales	$ 1,986,000	$ 6,845,018
Realized gains	$ 177,000	$ -
Realized (losses)	-	(161,299)
Net realized (losses)	$ 177,000	$ (161,299)

The book value of securities pledged as collateral to secure public deposits was $259,853 at June 30, 2006. There were no securities pledged as collateral on public funds as of June 30, 2007. The book value of securities pledged on retail repurchase agreements at June 30, 2007 was $2,496,000.

(3) LOANS RECEIVABLE

Loans receivable at June 30 consist of the following:

	2007	2006
Residential real estate	$ 86,530,040	$ 82,519,285
Commercial real estate	40,331,248	37,096,966
Land	9,094,838	7,949,085
Loans to depositors, secured by savings accounts	1,503,530	1,708,700
Consumer and automobile loans	10,387,221	6,755,244
Second mortgage loans	4,828,083	3,658,886
Commercial business loans	8,700,087	8,532,078
Overdrafts	140,268	210,298
Total gross loans	161,515,315	148,430,542
Allowance for loan losses	(2,692,594)	(2,474,439)
Loans in process	(984)	(4,152,747)
Unamortized deferred loan costs, net of origination fees	171,184	183,619
Net loans receivable	$158,992,921	$141,986,975

(3) LOANS RECEIVABLE (CONTINUED)

Activity in the allowance for loan losses is summarized as follows for the years ended June 30:

	2007	2006
Balance at beginning of year	$ 2,474,439	$ 2,850,704
Provision charged to income	426,000	1,520,083
Charge-offs	(372,428)	(1,999,592)
Recoveries	164,583	103,244
Balance at end of year	$ 2,692,594	$ 2,474,439

The Savings Bank primarily grants loans to customers throughout southern Missouri. The loans are typically secured by real estate or personal property.

Loans receivable at June 30, 2007 and 2006 that are past 90 days due or non-accrual consist of the following:

	2007	2006
Past due 90 days or more and still accruing interest	$ 358,965	$ 2,913
Non-accrual	2,889,180	841,367
	$ 3,248,145	$ 844,280

The following is a summary of information pertaining to impaired loans:

	June 30,	
	2007	2006
Total impaired loans	$ 3,248,145	$ 844 280
Total impaired loans without reserve	$ 609,116	$ 40,509
Total impaired loans with reserve	$ 2,639,029	$ 803,771
Valuation allowance related to impaired loans	$ 896,760	$ 126,252

	Years Ended June 30,	
	2007	2006
Average investment in impaired loans	$ 1,715,588	$ 2,496,402
Interest income recognized on impaired loans	$ 105,502	$ 140,270
Interest income recognized on a cash basis on impaired loans	$ 105,502	$ 136,599

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(4) PROPERTY AND EQUIPMENT

Property and equipment at June 30 consists of the following:

	2007		
Category	Cost	Accum. Deprec.	Net
Land	$ 635,204	$ -	$ 635,204
Buildings	5,582,042	2,059,723	3,522,319
Office furniture, fixtures and equipment	3,923,448	2,481,701	1,441,747
Automobiles	100,076	32,295	67,781
Investment real estate	2,544,420	704,609	1,839,811
Total	$12,785,190	$5,278,328	$ 7,506,862

	2006		
Category	Cost	Accum. Deprec.	Net
Land	$ 635,204	$ -	$ 635,204
Buildings	5,490,973	1,886,564	3,604,409
Office furniture, fixtures and equipment	3,470,018	2,004,932	1,465,086
Automobiles	160,557	100,848	59,709
Investment real estate	2,896,736	632,835	2,263,901
Total	$12,653,488	$4,625,179	$ 8,028,309

Depreciation charges to operations for the years ended June 30, 2007 and 2006 were $757,492 and $648,371, respectively.

The Savings Bank's offices in Theodosia and Springfield, as well as the Loan Origination Office in Springfield, are leased. The lease on the Theodosia office is renewable on an annual basis. The lease on the Springfield office was assumed and it has eight years remaining on the initial term. The monthly rent under this lease is subject to annual adjustments based on the annual change in a base index. The lease on the Loan Production Office has an initial term of two years. Minimum future lease payments for leased facilities for the next five years are as follows:

2008	$ 128,233
2009	100,091
2010	86,820
2011	86,820
2012	86,820
Thereafter	260,460
	$ 749,244

Rent expense for the years ended June 30, 2007 and 2006 was $139,613 and $17,941, respectively.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(5) INTANGIBLE ASSET

A summary of the intangible asset at June 30 is as follows:

	2007	2006
Premium on branch acquisition	$ 1,020,216	$ 1,020,216
Accumulated amortization	(734,632)	(684,517)
Net premium on branch acquisition	$ 285,584	$ 335,699

Amortization expense relating to this premium was $50,115 in 2007 and 2006.

Estimated future amortization expense is as follows for the years ending June 30:

2008	$ 50,115
2009	50,115
2010	50,115
2011	50,115
2012	50,115
Thereafter	35,009
	$ 285,584

(6) DEPOSITS

A summary of deposit accounts at June 30 is as follows:

	2007	2006
Non-interest-bearing checking	$ 12,715,947	$ 12,745,481
Interest-bearing checking	31,807,750	34,879,468
Super Saver money market	12,609,062	23,420,108
Savings	13,375,164	16,885,789
Money Market savings accounts	36,286,508	-
Certificates of Deposit	83,295,928	91,210,294
Total	$190,090,359	$179,141,140

The aggregate amount of jumbo certificates of deposit with a minimum denomination of $100,000 was $22,549,073 and $24,246,422 at June 30, 2007 and 2006, respectively.

At June 30, 2007, scheduled maturities of certificates of deposit are as follows:

Fiscal	2008	$ 57,791,799
	2009	14,904,856
	2010	6,203,765
	2011	4,048,893
	2012	346,615
		$ 83,295,928

(7) RETAIL REPURCHASE AGREEMENTS

In December 2006, the Savings Bank began to offer retail repurchase agreements as an additional item in its product mix. Retail repurchase agreements allow customers to have excess checking account balances "swept" from the checking accounts into a non-insured interest bearing account. The customers' investment in these non-insured accounts is collateralized by securities of the Savings Bank pledged at FHLB for that purpose.

(8) ADVANCES FROM FEDERAL HOME LOAN BANK

The advances listed below were obtained from the FHLB of Des Moines. The advances are secured by FHLB stock and qualifying one-to-four family mortgage loans. Advances from the FHLB at June 30 are summarized as follows:

	2007	Weighted Average Rate	2006	Weighted Average Rate
Term Advances:				
Long-term; fixed-rate; callable quarterly	$19,000,000	5.88%	$22,000,000	5.74%
Long-term; fixed-rate; non-callable	3,000,000	4.94	-	
Total	$22,000,000	5.75%	$22,000,000	5.74%

As of June 30, 2007 the fixed-rate term advances shown above were subject to a prepayment fee equal to 100 percent of the present value of the monthly lost cash flow to the FHLB based upon the difference between the contract rate on the advance and the rate on an alternative qualifying investment of the same remaining maturity. Advances may be prepaid without a prepayment fee if the rate on an advance being prepaid is equal to or below the current rate for an alternative qualifying investment of the same remaining maturity.

Maturities of FHLB advances are as follows:

Year Ended June 30	Aggregate Annual Maturities
2008	$ -
2009	-
2010	19,000,000
2011	-
2012	-
2013	3,000,000
	$ 22,000,000

At June 30, 2007, the Savings Bank had irrevocable letters of credit issued on its behalf from the FHLB totaling $4,505,000, as collateral for public entity deposits in excess of federal insurance of accounts limits. The letters of credit expire July 2007 through June 2008.

(9) INCOME TAXES

The provision for income taxes (benefit) for the years ended June 30 is as follows:

	2007	2006

Current	$ (17,982)	$ (151,062)
Deferred	(99,425)	59,826
Total	$ (117,407)	$ (91,236)

The provision for income taxes (benefit) differs from that computed at the statutory corporate rate, 34%, for the years ended June 30 as follows:

	2007	2006
Tax at statutory rate	$ 52,514	$ (89,780)
Increase (decrease) in taxes resulting		
from: State taxes, net of federal benefit	(5,433)	(4,166)
Tax-exempt income	(43,420)	(40,462)
Bank-owned life insurance	(72,923)	(73,818)
Dividends received deduction	(18,921)	(33,097)
Change in valuation allowance	(21,910)	96,296
Net effect of other book/tax differences	(7,314)	53,791
Provision for income taxes	$ (117,407)	$ (91,236)

The components of deferred tax assets and liabilities as of June 30, 2007 and 2006 consisted of:

	2007	2006
Deferred tax assets:		
Reserve for loan losses	$ 990,297	$ 915,542
Investment impairment	-	96,296
Health insurance plan reserves not currently deductible	-	2,699
Book amortization in excess of tax amortization	27,742	52,461
Compensated employee absences	28,375	50,357
State net operating loss carry-forwards	51,644	40,018
Capital loss carry-forwards	22,742	-
Net unrealized loss on available for sale securities	121,275	121,798
Other	45,046	-
	1,297,121	1,279,171
Valuation allowance	(74,386)	(96,296)
Total net deferred tax assets	$ 1,222,735	$ 1,182,875
Deferred tax liabilities:		
Premises and equipment	$ (198,259)	$ (262,053)
FHLB stock dividends	(60,936)	(60,936)
Prepaid expenses	(82,829)	(70,298)
Unamortized deferred loan costs, net of fees	(63,338)	(71,116)
Total gross deferred tax liabilities	$ (405,362)	$ (464,403)
Total net deferred tax assets	$ 817,373	$ 718,472

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(9) INCOME TAXES (CONTINUED)

In accordance with SFAS No. 109, a deferred tax liability has not been recognized for tax basis bad debt reserves of approximately $2,190,825 of the Savings Bank that arose in tax years that began prior to December 31, 1987. At June 30, 2007 the amount of the deferred tax liability that had not been recognized was approximately $811,000. This deferred tax liability could be recognized if, in the future, there is a change in federal tax law, the Savings Bank fails to meet the definition of a "qualified savings institution," as defined by the Internal Revenue Code, certain distributions are made with respect to the stock of the Savings Bank, or the bad debt reserves are used for any purpose other than absorbing bad debts.

During the years ended June 30, 2007 and 2006, the Company recorded a valuation allowance of $74,386 and $96,296, respectively, on the deferred tax assets to reduce the total to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carry forwards are expected to be available to reduce taxable income. The 2006 valuation allowance related to the $260,000 write down on securities available-for-sale due to a determination that the impairment was other than temporary. During the year ended June 30, 2007, the Company sold the preferred stock that was determined to be impaired and recovered $177,000 of the write down.

(10) EMPLOYEE BENEFIT PLANS

The Savings Bank had participated in a multiple-employer defined benefit pension plan covering substantially all employees. In fiscal 2006, the Savings Bank opted to freeze the plan. Participants in the plan became entitled to their vested benefits at the date it was frozen. The Savings Bank limited its future obligations to the funding amount required by the annual actuarial evaluation of the plan and administrative costs. No participants will be added to the plan. Pension expense for the years ended June 30, 2007 and 2006 was approximately $147,000 and $404,000, respectively. This plan is not subject to the requirements of FAS 158.

The First Home Savings Bank Employee Stock Ownership and 401(k) Plan covers all employees that are age 21 and have completed six months of service. As of April 1, 2006, the Company began making contributions on a matching basis of up to 3% on employee deferrals. Expense for the ESOP and 401(k) plan for the years ended June 30, 2007 and 2006 was $40,986 and $8,113, respectively.

Effective July 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payments, using the modified prospective transition method. Prior to that date the Company accounted for stock option awards under APB Opinion No. 25, Accounting for Stock Issued to Employees. In accordance with SFAS No.123(R), compensation expense for stock-based awards is recorded over the vesting period at the fair value of the award at the time of grant. The recording of such compensation began on July 1, 2006 for shares not yet vested as of that date and for all new grants subsequent to that date. Prior years' results have not been restated. The exercise price of options granted under the Company's incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeitures on its stock-based compensation, since actual historical forfeiture rates on its stock-based incentive awards have been negligible.

(10) EMPLOYEE BENEFIT PLANS (CONTINUED)

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. The plan was approved by shareholders in October 2004.

The Company's 2004 Management Recognition Plan has authorized 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. 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. The plan was approved by shareholders in October 2004.

The Company uses historical data to estimate the expected term of the options granted, volatilities, and other factors. Expected volatilities are based on the historical volatility of the Company's common stock over a period of time. The risk-free rate for periods corresponding with the expected 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 assumptions for grants in fiscal 2007, respectively: dividend rates of .00% to .99%, price volatility of 18.36% to 20.29%, risk-free interest rates of 4.58% to 5.02%, and an expected life of 7.5 to 10 years.

A summary of the Company's stock option activity, and related information for the years ended June 30 follows:

	2007		2006	
	Options	Weighted Average Price	Options	Weighted Average Price

Outstanding at beginning of year	48,000	$ 17.46	2,000	$ 7.75
Granted	47,500	16.72	48,000	17.46
Exercised	-	-	(2,000)	7.75
Forfeited	(31,000)	17.78	-	-
Outstanding at end of year	64,500	16.76	48,000	17.46
Exercisable at end of year	3,400	$ 17.50	5,000	$ 17.79

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(10) EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table summarizes information about stock options outstanding at June 30, 2007:

Exercise Price	Number Outstanding at June 30	Number Exercisable at June 30	Remaining Contractual Life (Months)
$17.50	2,000	400	104
17.00	32,500	-	117
16.78	15,000	3,000	108
16.10	15,000	-	112

A summary of the Company's non-vested options as of June 30, 2007, and changes during the year ended June 30, 2007, is presented below:

Nonvested Options	Options	Weighted-Average Grant-Date Fair Value
Nonvested at July 1, 2006	43,000	$ 6.25
Granted	47,500	5.92
Vested	(8,400)	6.28
Forfeited	(21,000)	6.22
Nonvested at June 30, 2007	61,100	6.02

As of June 30, 2007, there was $183,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 1.7 years.

The aggregate intrinsic value of options on Company stock is summarized in the following table.

	Options	Intrinsic Value
Non-exercisable options	61,100	$(13,610)
Exercisable options	3,400	(840)
Options exercised	-	-
Total	64,500	$(14,450)

(11) EARNINGS PER SHARE

The following information shows the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock. The amounts in the income columns represent the numerator and the amounts in the shares columns represent the denominator. There was no dilutive effect since the exercise price of all shares eligible to be exercised at June 30, 2007 exceeded the market price of the shares.

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(11) EARNINGS PER SHARE (CONTINUED)

	Years Ended June 30,					
	2007			2006		
	Income	Shares	Per Share Amt	Income	Shares	Per Share Amt
Basic EPS:						
Income available to common stockholders	$271,860	1,547,966	$0.18	$(172,827)	1,553,010	$(0.11)
Effect of dilutive securities	-	-		-	-	
Diluted EPS:						
Income available						

to stockholders plus stock options	$271,860	1,547,966	$0.18	$(172,827)	1,553,010	$(0.11)

At June 30, 2007 and 2006, there were no shares determined to be dilutive due to the market price of the Company's common shares.

(12) RELATED PARTY TRANSACTIONS

Certain employees, officers and directors are engaged in transactions with the Savings Bank in the ordinary course of business. It is the Savings Bank's policy that all related party transactions are conducted at "arm's length" and all loans and commitments included in such transactions are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers. A summary of the changes in outstanding loans to officers and directors for the year ended June 30 is as follows:

	2007
Beginning balances	$587,480
Originations and advances	508,624
Principal repayments	(567,352)
Ending balances	$528,752

The Company had two directors that perform legal services, primarily on behalf of the Savings Bank. One of these directors resigned from the Board prior to the end of calendar 2005, but receives a monthly retainer until the end of calendar 2007. The services provided by the current director relate primarily to foreclosures and bankruptcies. During the years ended June 30, 2007 and 2006, the Savings Bank paid $64,592 and $56,713, respectively, for legal services performed by these directors.

(13) COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Savings Bank has various outstanding commitments that are not reflected in the accompanying consolidated financial statements. The principal commitments of the Savings Bank are as follows:

Letters of Credit - Outstanding standby letters of credit were approximately $713,000 and $1,607,000 at June 30, 2007 and 2006, respectively.

(13) COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan Commitments - The Savings Bank had outstanding firm commitments to originate loans in the amount of $5,098,000 at June 30, 2007 and loans in the amount of $1,859,000 at June 30, 2006.

Lines of Credit - The unused portion of lines of credit was approximately $2,514,000 and $3,668,000 at June 30, 2007 and 2006, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential and commercial real estate as well as income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Most guarantees have one year terms.

None of the guarantees extend longer than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary. All of the standby letters of credit outstanding at June 30, 2007 were collateralized. No amounts were recorded as liabilities at June 30, 2007 or 2006 for the Company's potential obligations under these guarantees.

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's consolidated financial statements.

(14) CONCENTRATION OF CREDIT RISK

The Savings Bank maintains its primary bank accounts with institutions in Missouri and Iowa. On June 30, 2007, the individual balances of these accounts exceeded standard insurance limits established by the Federal Deposit Insurance Corporation. The Savings Bank has not experienced any losses in such accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(15) REGULATORY CAPITAL REQUIREMENTS

The Savings Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Office of Thrift Supervision ("OTS"). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators that if undertaken, could have a direct material affect on the Savings Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Savings Bank must meet specific capital guidelines involving quantitative measures of the Savings Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Savings Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Savings Bank to maintain minimum amounts and ratios (set forth in the table below) of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), Tier 1 capital to adjusted total assets (as defined), and tangible capital to adjusted total assets (as defined).

Management believes, as of June 30, 2007, that the Savings Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2007, the most recent notification from the OTS, the Savings Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Savings Bank must maintain minimum total risk-based, Tier 1 risk-based, and core capital leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Savings Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum For Capital Adequacy Purposes		Minimum to Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
As of June 30, 2007:						
Total Risk-Based Capital (to Risk-Weighted Assets)	$ 26,078	17.13%	$12,179	8.0%	$15,224	10.0%
Core Capital (to Adjusted Tangible Assets)	24,199	10.11%	9,576	4.0%	11,970	5.0%

Tangible Capital (to Adjusted Tangible Assets)	24,199	10.11%	3,591	1.5%	N/A	
Tier 1 Capital (to Risk-Weighted Assets)	24,199	15.90%	9,576	4.0%	9,135	6.0%

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(15) REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

As of June 30, 2006:						
Total Risk-Based Capital (to Risk-Weighted Assets)	$ 24,428	17.46%	$11,190	8.0%	$13,98	10.0%
Core Capital (to Adjusted Tangible Assets)	22,706	10.06%	9,026	4.0%	11,283	5.0%
Tangible Capital (to Adjusted Tangible Assets)	22,706	10.06%	3,385	1.5%	N/A	
Tier 1 Capital (to Risk-Weighted Assets)	22,706	16.23%	9,026	4.0%	8,392	6.0%

(16) COMMON STOCK

As provided in the Company's Articles of Incorporation record holders of Common Stock who beneficially own, either directly or indirectly, in excess of 10% of the Company's outstanding shares are not entitled to any vote with respect to the shares they hold in excess of the 10% limit.

(17) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents and certificates of deposit - For these short-term instruments, the carrying amount approximates fair value.

Available-for-sale and held-to-maturity securities - Fair values for securities equal quoted market prices, if available. If quoted market prices are not available, fair values are estimated based on quoted market prices of similar securities.

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

Investment in FHLB stock - Fair value of the Savings Bank's investment in FHLB stock approximates the carrying value as no ready market exists for this investment and the stock could only be sold back to the FHLB at par.

Accrued interest - The carrying amounts of accrued interest approximate their fair value.

Deposits - The fair value of demand deposits, savings accounts and interest-bearing demand deposits is the amount payable on demand at the reporting date (i.e., their carrying amount). The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

(17) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Retail repurchase agreements - The fair value of retail repurchase agreements is the amount payable at the reporting date.

FHLB advances - Rates currently available to the Savings Bank for advances with similar terms and remaining maturities are used to estimate fair value of existing advances by discounting the future cash flows.

Commitments to extend credit, letters of credit and lines of credit - The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit and lines of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date and are insignificant.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves uncertainties and significant judgments by management. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	June 30, 2007	
	Approximate Carrying Amount	Approximate Fair Value
Financial assets:		
Cash and cash equivalents	$ 21,030,000	$ 21,030,000
Certificates of deposit	747,000	747,000
Available-for-sale securities	31,321,000	31,321,000
Held-to-maturity securities	10,786,000	10,615,000
Investment in FHLB stock	1,614,000	1,614,000
Loans, net of allowance for loan losses	158,993,000	158,303,000
Accrued interest receivable	1,259,000	1,259,000
Financial liabilities:		
Deposits	190,090,000	189,994,000
Retail repurchase agreements	2,103,000	2,103,000
FHLB advances	22,000,000	22,138,000
Accrued interest payable	358,000	358,000

(17) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	June 30, 2006	
	Approximate Carrying Amount	Approximate Fair Value
Financial assets:		
Cash and cash equivalents	$ 23,474,000	$ 23,474,000
Certificates of deposit	3,827,000	3,827,000
Available-for-sale securities	20,884,000	20,884,000
Held-to-maturity securities	19,210,000	18,810,000
Investment in FHLB stock	1,612,000	1,612,000
Loans, net of allowance for loan losses	141,987,000	141,790,000

Accrued interest receivable	1,178,000	1,178,000
Financial liabilities:		
Deposits	179,141,000	179,022,000
FHLB advances	22,000,000	22,379,000
Accrued interest payable	358,000	358,000

(18) PARENT COMPANY ONLY FINANCIAL INFORMATION

The following condensed statements of financial condition and condensed statements of income and cash flows for First Bancshares, Inc. are as follows:

Condensed Statements of Financial Condition

ASSETS	2007	2006
Cash and cash equivalents	$ 156,673	$ 332,320
Certificates of deposit	10,000	10,000
Securities available-for-sale	48,000	452,000
Investment in subsidiaries	24,974,967	24,332,525
Property and equipment, net	1,839,812	1,086,207
Due from subsidiary	3,017	44,741
Deferred tax asset, net	106,098	19,835
Other assets	94,593	31,735
Total assets	$27,433,160	$26,309,363
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable, subsidiaries	$ 947,765	$ -
Accrued expenses	17,302	18,794
Total Liabilities	965,067	18,794
Stockholders' equity	26,468,093	26,290,569
Total liabilities and stockholders' equity	$27,433,160	$26,309,363

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(18) PARENT COMPANY ONLY FINANCIAL INFORMATION (CONTINUED)

Condensed Statements of Income

	2007	2006

Income:		
Equity in earnings of subsidiaries	$ 582,218	$ (49,802)
Interest and dividend income	23,249	25,626
Gain/(loss) on sale of property and Equipment	(298,887)	(123,161)
Other	40,080	21,539
Total income (loss)	346,660	(125,798)
Expenses:		
Professional fees	158,243	101,396
Printing and office supplies	6,826	10,842
Interest	6,747	19,580
Other	71,458	72,423
Income tax benefit	(168,474)	(157,212)
Total expenses	74,800	47,029
Net income (loss)	$ 271,860	$ (172,827)

Condensed Statements of Cash Flows

	2007	2006
Cash flows from operating activities:		
Net income (loss)	$ 271,860	$ (172,827)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Equity in earnings of subsidiaries	(582,218)	49,802
Depreciation expense	36,333	49,292
Loss on sale or write down of property and equipment	298,887	123,161
Net change in operating accounts:		
Deferred tax asset, net	(86,263)	(52,092)
Other assets and liabilities	(21,565)	(30,503)
Net cash (used in) operating activities	(82,966)	(33,167)
Cash flows from investing activities:		
Dividends from subsidiary	-	1,000,000
Proceeds from call of security available-for- sale	200,000	
Purchase of property and equipment	(1,138,826)	(73,371)
Proceeds from sales of property and Equipment	50,000	224,488
Net cash used in (provided by) from investing activities	(888,826)	1,151,117

FIRST BANCSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2007 and 2006

(18) PARENT COMPANY ONLY FINANCIAL INFORMATION (CONTINUED)

Condensed Statements of Cash Flows (Continued)

	2007	2006
Cash flows from financing activities:		
Proceeds from notes payable	948,915	-
Payments on notes payable	(1,150)	(625,000)
Proceeds from issuance of common stock	-	15,500
Cash dividends paid	(124,166)	(248,477)
Purchase of treasury stock	(27,454)	(26,002)
Net cash provided by (used in) financing activities	796,145	(883,979)
Net increase (decrease) in cash and cash equivalents	(175,647)	233,971
Cash and cash equivalents-beginning of period	332,320	98,349
Cash and cash equivalents-end of period	$ 156,673	$ 332,320

COMMON STOCK INFORMATION

The common stock of First Bancshares, Inc. is traded on The Nasdaq Stock Market LLC under the symbol "FBSI". As of September 24, 2007, there were 489 stockholders and 1,550,815 shares of common stock outstanding. This does not reflect the number of persons or entities who hold stock in nominee or "street name."

On August 23 and December 1, 2006, the Company declared a $.04 common stock dividend payable on September 29 and December 29, 2006 to stockholders of record on September 15 and December 12, 2006, respectively. At its February 2007 meeting, the Board of Directors decided to suspend dividend payments until the Company's earnings improved. Dividend payments by the Company are dependent on its cash flows, which include reimbursement from its subsidiaries for the income tax savings created by its stand alone operating loss, the operation of real estate owned by the Company and dividends received by the Company from the Savings Bank. Under Federal regulations, the dollar amount of dividends a savings and loan association may pay is dependent upon the association's capital position and recent net income. Generally, if an association satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed in the OTS regulations. However, institutions that have converted to stock form of ownership may not declare or pay a dividend on, or repurchase any of, its common stock if the effect thereof would cause the regulatory capital of the institution to be reduced below the amount required for the liquidation account which was established in accordance with the OTS regulations and the Savings Bank's Plan of Conversion. In addition, under Missouri law, the Company is generally prohibited from declaring and paying dividends at a time when the Company's net assets are less than its stated capital or when the payment of dividends would reduce the Company's net assets below its stated capital. During the fiscal year ended June 30, 2007, no dividend payments were paid by the Savings Bank to the Company.

The following table sets forth market price and dividend information for the Company's common stock.

Fiscal 2007	High	Low	Dividend
First Quarter	$17.15	$16.00	$.04
Second Quarter	$17.85	$16.00	$.04
Third Quarter	$17.50	$16.41	N/A
Fourth Quarter	$17.00	$15.10	N/A

Fiscal 2006	High	Low	Dividend
First Quarter	$20.23	$15.95	$.04
Second Quarter	$19.39	$15.95	$.04
Third Quarter	$18.73	$16.60	$.04
Fourth Quarter	$18.18	$16.46	$.04

DIRECTORS AND EXECUTIVE OFFICERS

FIRST BANCSHARES, INC.

DIRECTORS:

Thomas M. Sutherland, Chairman
One of the owners and operators of Sutherlands Home Improvement Centers group of stores

D. Mitch Ashlock
Director, President and Chief Executive Officer
First Federal Savings Bank of Olathe

Harold F. Glass
Partner

FIRST HOME SAVINGS BANK

DIRECTORS:

Thomas M. Sutherland, Chairman
One of the owners and operators of Sutherlands Home Improvement Centers group of stores

D. Mitch Ashlock
Director, President and Chief Executive Officer
First Federal Savings Bank of Olathe

Harold F. Glass
Partner

Millington, Glass & Love,
Attorneys at Law

Billy E. Hixon
Retired partner from regional
CPA firm of BKD, LLP

Daniel P. Katzfey
President and Chief Executive
Officer
First Bancshares, Inc.
First Home Savings Bank

John G. Moody
Judge of the 44th
Missouri Judicial Circuit

ADVISORY DIRECTOR:

Robert J. Breidenthal
Director
Security Bank of Kansas City

OFFICERS:
Daniel P. Katzfey
President and Chief Executive
Officer

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

Shannon Peterson
Secretary

Millington, Glass & Love,
Attorneys at Law

Billy E. Hixon
Retired partner from regional
CPA firm of BKD, LLP

Daniel P. Katzfey
President and Chief Executive
Officer

John G. Moody
Judge of the 44th
Missouri Judicial Circuit

ADVISORY DIRECTOR:

Robert J. Breidenthal
Director
Security Bank of Kansas City

OFFICERS:
Daniel P. Katzfey
President and Chief Executive
Officer

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

Dale W. Keenan
Executive Vice President and
Senior Lending Officer

Adrian Rushing
Senior Vice President and
Chief Operating Officer

Shannon Peterson
Secretary

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

142 East First Street
P.O. Box 777
Mountain Grove, Missouri 65711
(800) 866-1340

TRANSFER AGENT

Registrar and Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016

INDEPENDENT AUDITORS

McGladrey & Pullen, LLP
Kansas City, Missouri

GENERAL COUNSEL

Harold F. Glass
Springfield, Missouri

SPECIAL COUNSEL

Breyer & Associates PC
McLean, Virginia

COMMON STOCK

Traded on The Nasdaq Stock Market LLC
Nasdaq Symbol: FBSI

ANNUAL MEETING

The date and location of the Annual Meeting of Stockholders has not as yet been determined. The date and location will be announced at a later date.

FORM 10-KSB

A COPY OF THE FORM 10-KSB AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE FOR VOTING AT THE ANNUAL MEETING OF STOCKHOLDERS UPON WRITTEN REQUEST TO THE SECRETARY, FIRST BANCSHARES, INC., P.O. BOX 777, MOUNTAIN GROVE, MISSOURI 65711.

THE COMPANY'S FORMS 10-KSB, 10-QSB AND OTHER DISCLOSURE DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION CAN BE OBTAINED FROM THE SEC HOME PAGE ON THE WORLD WIDE WEB AT http://www.sec.gov.

59

Exhibit 21

Subsidiaries of the Registrant

Parent

First Bancshares, Inc.

Subsidiaries (a)	Percentage of Ownership	Jurisdiction or State of Incorporation
First Home Savings Bank	100%	Missouri
SCMG, Inc. (formerly South Central Missouri Title, Inc.)	100%	Missouri
Fybar Service Corporation (b)	100%	Missouri

First Home Investments, Inc. (b)	100%	Missouri

(a) The operation of the Company's wholly owned subsidiaries are included in the Company's Consolidated Financial Statements contained in the Annual Report attached hereto as Exhibit 13.

(b) Wholly owned subsidiary of First Home Savings Bank.

Exhibit 23

Consent of Auditors

McGladrey & Pullen, LLP
Certified Public Accountants

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 33-87234) on Form S-8 of First Bancshares, Inc. of our report dated September 28, 2007 relating to our audit of the consolidated financial statements, which appear in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-KSB of First Bancshares, Inc. for the year ended June 30, 2007.

/s/McGladrey & Pullen, LLP

MCGLADREY & PULLEN, LLP
Kansas City, Missouri
September 28, 2007

Exhibit 31.1

Rule 13a - 14(a) Certification
(Chief Executive Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Daniel P. Katzfey, certify that:

1. I have reviewed this Annual Report on Form 10-KSB 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 small business issuer 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 small business issuer'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: September 28, 2007

/s/Daniel P. Katfey

Daniel P. Katfey
President and Chief Executive Officer

Exhibit 31.2

Rule 13a - 14(a) Certification
(Chief Financial Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Ronald J. Walters, certify that:

1. I have reviewed this Annual Report on Form 10-KSB 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 small business issuer 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 small business issuer'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: September 28, 2007

/s/Ronald J. Walters

Ronald J. Walters
Senior Vice President, Treasurer

and Chief Financial Officer

Exhibit 32.1

Section 1350 Certifications

CERTIFICATION OF CHIEF EXECUTIVE 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-KSB for the fiscal year ended June 30, 2007, 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 as of the dates and for the periods presented in the financial statements included in the report.

Date: September 28, 2007 /s/Daniel P. Katzfey

Daniel P. Katzfey
President and Chief Executive Officer

Exhibit 32.2

Section 1350 Certifications

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-KSB for the fiscal year ended June 30, 2007, 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 as of the dates and for the periods presented in the

financial statements included in the report.

Date: September 28, 2007

/s/Ronald J. Walters

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