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FIRST BANCSHARES INC /MS/
Form 10QSB
November 13, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: September 30, 2003

OR

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

COMMISSION FILE NUMBER: 33-94288

THE FIRST BANCSHARES, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

MISSISSIPPI
(STATE OF INCORPORATION)

64-0862173
(I.R.S. EMPLOYER IDENTIFICATION NO.)

6480 U.S. HIGHWAY 98 WEST
HATTIESBURG, MISSISSIPPI

39404-5549

(ADDRESS OF PRINCIPAL
EXECUTIVE OFFICES)

(ZIP CODE)

(601) 268-8998

(ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NONE

(FORMER NAME, ADDRESS AND FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

INDICATE BY CHECK MARK WHETHER THE ISSUER: (1) HAS FILED ALL REPORTS
REQUIRED TO BE FILED BY SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE
ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD
THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN
SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

Yes No

ON SEPTEMBER 30, 2003, 1,165,165 SHARES OF THE ISSUER'S COMMON STOCK, PAR
VALUE \$1.00 PER SHARE, WERE OUTSTANDING.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE):

Yes No

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

| (\$ amounts in thousands) | (Unaudited) | |
|---|-----------------------|----------------------|
| ASSETS | September 30, 2003 | December 31, 2002 |
| | | |
| Cash and due from banks | \$ 5,434 | \$ 6,638 |
| Interest-bearing deposits with banks | 639 | 652 |
| Federal funds sold | 3,627 | 4,810 |
| | | |
| TOTAL CASH AND CASH EQUIVALENTS | 9,700 | 12,100 |
| Securities held-to-maturity, at amortized cost | 15 | 25 |
| Securities available-for-sale, at fair value | 28,217 | 25,721 |
| Loans held for sale | 3,576 | 7,092 |
| Loans | 109,815 | 100,678 |
| Allowance for loan losses | (1,151) | (1,228) |
| | | |
| LOANS, NET | 108,664 | 99,450 |
| Premises and equipment | 8,278 | 7,986 |
| Interest receivable | 837 | 944 |
| Cash surrender value | 3,139 | 3,019 |
| Other assets | 1,144 | 1,090 |
| | | |
| | \$163,570 | \$157,427 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | \$ 19,389 | \$ 16,604 |
| Time, \$100,000 or more | 28,368 | 33,551 |
| Interest-bearing | 76,520 | 67,966 |
| | | |
| TOTAL DEPOSITS | 124,277 | 118,121 |
| Interest payable | 179 | 240 |
| Borrowed funds | 16,206 | 16,637 |
| Guaranteed preferred beneficial interests in Company's subordinated debentures | 7,000 | 7,000 |
| Other liabilities | 368 | 506 |
| | | |
| TOTAL LIABILITIES | 148,030 | 142,504 |
| SUBORDINATED DEBENTURES | - | - |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, \$1 par value. Authorized | | |

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| | | |
|---|------------------|------------------|
| 10,000,000 shares; 1,191,659 and 1,165,165 shares issued at September 30, 2003 and December 31, 2002, respectively. | 1,192 | 1,165 |
| Preferred stock, par value \$1 per share, 10,000,000 shares authorized; no shares issued and outstanding | - | - |
| Treasury stock, at cost, 26,494 shares and no shares at September 30, 2003 and December 31, 2002, respectively | (464) | - |
| Additional paid-in capital | 12,949 | 12,512 |
| Retained earnings | 1,789 | 1,060 |
| Accumulated other comprehensive income | 74 | 186 |
| TOTAL SHAREHOLDERS' EQUITY | 15,540 | 14,923 |
| | <u>\$163,570</u> | <u>\$157,427</u> |
| | ===== | ===== |

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(\$ amounts in thousands except earnings per share)

| | (Unaudited) Three Months Ended September 30, | | (Unaudited) Nine Months Ended September 30, | |
|--|---|--------------|--|--------------|
| | 2003 | 2002 | 2003 | 2002 |
| INTEREST INCOME: | | | | |
| Loans, including fees | \$2,514 | \$2,412 | \$7,463 | \$6,552 |
| Securities: | | | | |
| Taxable | 146 | 195 | 438 | 614 |
| Tax exempt | 23 | 24 | 72 | 40 |
| Federal funds sold | 12 | 13 | 34 | 45 |
| Other | 21 | - | 62 | 45 |
| TOTAL INTEREST INCOME | 2,716 | 2,644 | 8,069 | 7,296 |
| INTEREST EXPENSE: | | | | |
| Deposits | 543 | 675 | 1,741 | 2,213 |
| Other borrowings | 222 | 253 | 665 | 578 |
| TOTAL INTEREST EXPENSE | 765 | 928 | 2,406 | 2,791 |
| NET INTEREST INCOME | 1,951 | 1,716 | 5,663 | 4,505 |
| PROVISION FOR LOAN LOSSES | 135 | 50 | 346 | 259 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 1,816 | 1,666 | 5,317 | 4,246 |
| NONINTEREST INCOME: | | | | |
| Service charges on deposit accounts | 346 | 369 | 1,019 | 980 |
| Other service charges, commissions and fees | 100 | 114 | 303 | 270 |
| TOTAL NONINTEREST INCOME | 446 | 483 | 1,322 | 1,250 |

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| | | | | |
|---|--------------|--------------|--------------|--------------|
| NONINTEREST EXPENSES: | | | | |
| Salaries and employee benefits | 1,020 | 884 | 2,995 | 2,346 |
| Occupancy and equipment expense | 318 | 293 | 911 | 762 |
| Other operating expenses | 496 | 491 | 1,463 | 1,353 |
| | <u>1,834</u> | <u>1,668</u> | <u>5,369</u> | <u>4,461</u> |
| | | | | |
| INCOME BEFORE INCOME TAXES | 428 | 481 | 1,270 | 1,035 |
| | | | | |
| INCOME TAXES | 142 | 164 | 424 | 355 |
| | <u>142</u> | <u>164</u> | <u>424</u> | <u>355</u> |
| | | | | |
| NET INCOME | \$ 286 | \$ 317 | \$ 846 | \$ 680 |
| | ===== | ===== | ===== | ===== |
| | | | | |
| EARNINGS PER SHARE - BASIC | \$.25 | \$.27 | \$.72 | \$.58 |
| EARNINGS PER SHARE - ASSUMING DILUTION | \$.24 | \$.26 | \$.70 | \$.57 |
| DIVIDENDS PER SHARE | \$ - | \$ - | \$.10 | \$.10 |

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ Amounts in Thousands)

| | | |
|--|-------------------|-----------------|
| | (Unaudited) | |
| | Nine Months Ended | |
| | September 30, | |
| | <u>2003</u> | <u>2002</u> |
| | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| NET INCOME | \$ 846 | \$ 680 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 510 | 372 |
| Provision for loan losses | 346 | 259 |
| (Increase) decrease in interest receivable | 107 | (23) |
| (Increase) decrease in loans held-for-sale | 3,515 | (580) |
| Increase (decrease) in interest payable | (61) | 104 |
| Other, net | (199) | (1,371) |
| | <u>5,064</u> | <u>(559)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Maturities and calls of securities available-for-sale | 13,841 | 17,876 |
| Maturities and calls of held-to-maturity securities | 9 | 7 |
| Purchases of securities available-for-sale | (16,508) | (18,196) |
| Net increase in loans | (9,560) | (11,999) |
| Purchases of premises and equipment | (735) | (803) |
| Increase in cash surrender value | (120) | (1,207) |
| | <u>(13,073)</u> | <u>(14,322)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |

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CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|--|----------|-----------|
| Increase in deposits | 6,156 | 2,140 |
| Net increase in borrowed funds | (430) | 6,863 |
| Issuance of trust preferred securities | - | 7,000 |
| Issuance of common stock | 464 | - |
| Purchase of treasury stock | (464) | - |
| Dividends paid on common stock | (117) | (117) |
| Exercise of stock options | - | 110 |
| | 5,609 | 15,996 |
| | (2,400) | 1,115 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 12,100 | 9,334 |
| | \$ 9,700 | \$ 10,449 |
| | ===== | ===== |
| CASH PAYMENTS FOR INTEREST | \$ 2,467 | \$ 2,895 |
| CASH PAYMENTS FOR INCOME TAXES | 255 | 267 |

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2003, are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-KSB for the year ended December 31, 2002.

NOTE B -- SUMMARY OF ORGANIZATION

The First Bancshares, Inc., Hattiesburg, Mississippi (the "Company"), was incorporated June 23, 1995, under the laws of the State of Mississippi for the purpose of operating as a bank holding company with respect to a then proposed de novo bank, The First National Bank of South Mississippi, Hattiesburg, Mississippi (the "Hattiesburg Bank"). The Hattiesburg Bank opened for business on August 5, 1996, with a total capitalization of \$5.2 million.

On August 10, 1998, the Company filed a registration statement on Form SB-2 relating to the issuance of up to 533,333 shares of Common Stock

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in connection with the formation of the First National Bank of the Pine Belt (Laurel Bank). The offering was closed on December 31, 1998, with 428,843 shares subscribed with an aggregate purchase price of \$6.4 million. On January 19, 1999, the Laurel Bank received approval from its banking regulator to begin banking operations, and the Company used \$5 million of the net proceeds to purchase 100% of the capital stock of the Laurel Bank. Simultaneously, the 428,843 shares subscribed to in the offering were issued. During the third quarter of 2003, the Banks petitioned the Office of Comptroller of Currency to merge the two banks. Merger approval has been received and a target date of January, 2004, has been set.

The Hattiesburg and Laurel Banks are wholly-owned subsidiaries of the Company. The Company's strategy is for the Hattiesburg Bank and the Laurel Bank to operate on a decentralized basis, emphasizing each Bank's local board of directors and management and their knowledge of their local community. Each Bank's local board of directors acts to promote its Bank and introduce prospective customers. The Company believes that this autonomy allows each Bank to generate high-yielding loans and to attract and retain core deposits. In 2002, the Hattiesburg Bank received approval from banking regulators to operate a branch in Picayune, Mississippi. Picayune operations consisted of a "Loan Production Office" in the first quarter of 2003. Branch operations began in June, 2003.

On February 11, 2003, the Company filed a registration statement on Form S-2 relating to the issuance of up to 45,000 shares of Common Stock in connection with the opening of a branch in Picayune, Mississippi. The maximum offering price per share of the \$1 par value stock was \$17.50 with an offering period that terminated July 31, 2003, after a total of 26,494 shares were sold. In accordance with the Form S-2 described use of funds, the Company purchased 26,494 shares of treasury stock at \$17.50 per share.

The Hattiesburg Bank and the Laurel Bank engage in general commercial banking business, emphasizing in its marketing the Bank's local management and ownership. The Banks offer a full range of banking services designed to meet the basic financial needs of its customers. These services include checking accounts, NOW accounts, money market deposit accounts, savings accounts, certificates of deposit, and individual retirement accounts. The Banks also offer short to medium-term commercial, mortgage, and personal loans. At September 30, 2003, the Company had approximately \$163.6 million in consolidated assets, \$109.8 million in consolidated loans, \$124.3 million in consolidated deposits, and \$15.5 million in consolidated shareholders' equity. For the nine months ended September 30, 2003, the Company reported a consolidated net income of \$846,000. For the same period, the Hattiesburg Bank reported net income of \$839,000, and the Laurel Bank net income of \$162,000.

In the first quarter of 2002 and 2003, the Company declared and paid dividends of \$.10 per common share.

NOTE C -- EARNINGS PER COMMON SHARE

Basic per share data is calculated based on the weighted-average number of common shares outstanding during the reporting period. Diluted per share data includes any dilution from potential common stock outstanding, such as exercise of stock options.

For the Three Months Ended
September 30, 2003

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| | Net Income (Numerator) | Shares (Denominator) | Per Share Data |
|---|---------------------------|-------------------------|-------------------|
| Basic per share | \$286,000 | 1,165,165 | \$.25 ===== |
| Effect of dilutive shares: Stock options | - | 38,445 | |
| Diluted per share | \$286,000 ===== | 1,203,610 ===== | \$.24 ===== |

For the Nine Months Ended
September 30, 2003

| | Net Income (Numerator) | Shares (Denominator) | Per Share Data |
|---|---------------------------|-------------------------|-------------------|
| Basic per share | \$846,000 | 1,170,347 | \$.72 ===== |
| Effect of dilutive shares: Stock options | - | 38,445 | |
| Diluted per share | \$846,000 ===== | 1,208,792 ===== | \$.70 ===== |

For the Three Months Ended
September 30, 2002

| | Net Income (Numerator) | Shares (Denominator) | Per Share Data |
|---|---------------------------|-------------------------|-------------------|
| Basic per share | \$317,000 | 1,165,165 | \$.27 ===== |
| Effect of dilutive shares: Stock options | - | 35,145 | |
| Diluted per share | \$317,000 ===== | 1,200,310 ===== | \$.26 ===== |

For the Nine Months Ended
September 30, 2002

| | Net Income (Numerator) | Shares (Denominator) | Per Share Data |
|---|---------------------------|-------------------------|-------------------|
| Basic per share | \$680,000 | 1,165,165 | \$.58 ===== |
| Effect of dilutive shares: Stock options | - | 35,137 | |

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| | | | |
|-------------------|-----------|-----------|--------|
| Diluted per share | \$680,000 | 1,200,302 | \$.57 |
| | ===== | ===== | ===== |

NOTE D - STOCK-BASED COMPENSATION

The Company has a stock-based employee compensation plan which is accounted for under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all stock options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

(\$ amounts in thousands except for per share data)

| | Quarter Ended September 30, | |
|---|------------------------------------|--------|
| | 2003 | 2002 |
| | ----- | ----- |
| Net income, as reported | \$ 286 | \$ 317 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (1) | (28) |
| | ----- | ----- |
| Pro forma net income | \$ 285 | \$ 289 |
| | ===== | ===== |
| Earnings per share: | | |
| Basic - as reported | \$.25 | \$.27 |
| Basic - pro forma | .24 | .25 |
| Diluted - as reported | .24 | .26 |
| Diluted - pro forma | .24 | .24 |
| | | |
| | Nine Months Ended September 30, | |
| | 2003 | 2002 |
| | ----- | ----- |
| Net income, as reported | \$ 846 | \$ 680 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (41) | (81) |
| | ----- | ----- |
| Pro forma net income | \$ 805 | \$ 599 |

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| | ===== | ===== |
|-----------------------|--------|--------|
| Earnings per share: | | |
| Basic - as reported | \$.72 | \$.58 |
| Basic - pro forma | .69 | .51 |
| Diluted - as reported | .70 | .57 |
| Diluted - pro forma | .67 | .50 |

NOTE E - COMPREHENSIVE INCOME

The following table discloses Comprehensive Income for the periods reported in the Consolidated Statements of Income:
(In thousands)

| | Quarter Ended September 30, | |
|--|------------------------------------|-------|
| | 2003 | 2002 |
| | ----- | ----- |
| Net Income | \$286 | \$317 |
| Other Comprehensive Income (loss) net of tax: | | |
| Unrealized holding gains (losses) on securities during the period, net of taxes | (61) | 32 |
| | ----- | ----- |
| Comprehensive Income | \$225 | \$349 |
| | ===== | ===== |
| Accumulated Comprehensive Income | \$ 74 | \$177 |
| | ===== | ===== |
| | | |
| | Nine Months Ended September 30, | |
| | 2003 | 2002 |
| | ----- | ----- |
| Net Income | \$846 | \$680 |
| Other Comprehensive Income (Loss) net of tax: | | |
| Unrealized holding gains (losses) on securities during the period, net of taxes | (112) | 66 |
| | ----- | ----- |
| Comprehensive Income | \$734 | \$746 |
| | ===== | ===== |
| Accumulated Comprehensive Income | \$ 74 | \$177 |
| | ===== | ===== |

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

The following discussion contains "forward-looking statements" relating

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to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. The words "expect," "estimate," "anticipate," and "believe," as well as similar expressions, are intended to identify forward-looking statements. The Company's actual results may differ materially from the results discussed in the forward-looking statements, and the Company's operating performance each quarter is subject to various risks and uncertainties that are discussed in detail in the Company's filings with the Securities and Exchange Commission, including the "Risk Factors" section in the Company's Registration Statement on Form SB-2 (Registration Number 333-61081) as filed with and declared effective by the Securities and Exchange Commission.

The Hattiesburg Bank completed its first full year of operations in 1997 and has grown substantially since opening on August 5, 1996. The Laurel Bank has been in operation since January 19, 1999. Comparisons of the Company's results for the periods presented should be made with an understanding of the subsidiary Banks' short histories.

The subsidiary Banks represent virtually all of the assets of the Company. The Hattiesburg Bank reported total assets of \$109.4 million at September 30, 2003, compared to \$107.1 million at December 31, 2002. Loans increased \$2.6 million, or 3.4%, during the first nine months of 2003. Deposits at September 30, 2003, totaled \$85.3 million compared to \$83.0 million at December 31, 2002. For the nine month period ended September 30, 2003, the Hattiesburg Bank reported net income of \$839,000, compared to \$655,000 for the nine months ended September 30, 2002. At September 30, 2003, the Laurel Bank had total assets of \$52.7, compared to \$48.8 million at December 31, 2002. Loans increased \$3.0 million, or 10.0% during the first nine months of 2003. Deposits at September 30, 2003, totaled \$43.2 million compared to the December 31, 2002, balance of \$40.5 million. For the nine month period ended September 30, 2003, the Laurel Bank reported net income of \$162,000 compared to \$151,000 for the nine months ended September 30, 2002.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At September 30, 2003, the subsidiary Banks had no concentrations of ten percent or more of total loans in any single industry nor any geographical area outside their immediate market areas.

At September 30, 2003, the subsidiary banks had loans past due as follows:

(\$ In Thousands)

| | |
|---|---------|
| Past due 30 through 89 days | \$1,104 |
| Past due 90 days or more and still accruing | 216 |

The accrual of interest is discontinued on loans which become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled \$236,000 at September 30, 2003. Any other real estate owned is carried at fair value, determined by an appraisal. Other real estate owned totaled \$290,000 at September 30, 2003. A loan is classified as a restructured loan when the interest rate is materially reduced or the term is extended beyond the original maturity date because of the inability of the borrower to service the debt under the original terms. The subsidiary Banks had no restructured loans at September 30, 2003.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity is adequate with cash and cash equivalents of \$9.7 million as of September 30, 2003. In addition, loans and investment securities repricing or maturing within one year or less exceed \$50.5 million at September 30, 2003. Approximately \$12.0 million in loan commitments are expected to be funded within the next six months and other commitments, primarily standby letters of credit, totaled \$151,000 at September 30, 2003.

There are no known trends or any known commitments of uncertainties that will result in the subsidiary banks' liquidity increasing or decreasing in a material way. In addition, the Company is not aware of any recommendations by any regulatory authorities which would have a material effect on the Company's liquidity, capital resources or results of operations.

Total consolidated equity capital at September 30, 2003, is \$15.5 million, or approximately 9.5% of total assets. The Hattiesburg Bank and Laurel Bank currently have adequate capital positions to meet the minimum capital requirements for all regulatory agencies. Their capital ratios as of September 30, 2003, are as follows:

| | Hattiesburg Bank | Laurel Bank |
|-------------------|---------------------|----------------|
| | _____ | _____ |
| Tier 1 leverage | 10.57% | 9.82% |
| Tier 1 risk-based | 13.81% | 12.50% |
| Total risk-based | 14.77% | 13.35% |

On March 26, 2002, The First Bancshares Statutory Trust 1 (the Trust), a wholly-owned subsidiary trust of the Company, issued \$7,000,000 of redeemable cumulative trust preferred securities. The Trust used the funds to acquire floating rate subordinated debentures from the Company. The debentures bear an initial interest rate of 5.59% which is adjusted annually at June 26 to the 3-month LIBOR plus 3.60%. The debentures have a maturity of 30 years. These debentures qualify as Tier 1 capital up to 25% of other components of Tier 1 capital.

RESULTS OF OPERATIONS

The Company had a consolidated net income of \$846,000 for the nine months ended September 30, 2003, compared with consolidated net income of \$680,000 for the same period last year.

Net interest income for the first nine months ended September 30, 2003, increased to \$5.7 million from \$4.5 million for the first nine months ended September 30, 2002, or an increase of 25.7%. Earning assets through September 30, 2003, increased \$10.2 million and interest-bearing liabilities also increased \$7.2 million compared to September 30, 2002, reflecting increases of 7.5% and 5.9%, respectively.

Noninterest income for the nine months ended September 30, 2003, was \$1.322 million, compared to \$1.250 million for the same period in 2002, reflecting an increase of \$72,000, or 5.8%. Included in noninterest income is service charges on deposit accounts, which for the nine months ended September 30, 2003, totaled \$1,019,000, compared to \$980,000 for the same period in 2002, and is a reflection of the

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continuing growth of the deposit base, as well as improvement in the fee pricing structure.

The provision for loan losses was \$346,000 in the first nine months of 2003 compared to \$259,000 in the first nine months of 2002. The allowance for loan losses of \$1.2 million at September 30, 2003 (approximately 1.0% of loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management's assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. Management evaluates the adequacy of the allowance for loan losses quarterly and makes provisions for loan losses based on this evaluation.

Noninterest expenses increased by \$908,000, or 20.4%, for the nine months ended September 30, 2003, when compared with the same period in 2002. This increase is primarily due to the continued growth of the two financial institutions and the related services being offered.

ITEM 3. - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation under the direction and with the participation of our principal executive officer and principal financial officer was performed to determine the effectiveness of the design and operation of the disclosure controls and procedures. The principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. There have been no significant changes in the Corporation's internal controls or in other factors subsequent to the date of the evaluation that could significantly affect these controls.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

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None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.

- | | |
|------|--|
| 31.1 | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of principal executive officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of principal financial officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

- b) The Company did not file any reports on Form 8-K during the quarter ended September 30, 2003.

SIGNATURES

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

THE FIRST BANCSHARES, INC.

(Registrant)

November 13, 2003

(Date)

/S/ DAVID E. JOHNSON

David E. Johnson, President and
Chief Executive Officer

November 13, 2003

(Date)

/S/ DAVID O. THOMS

David O. Thoms, Senior
Vice President and Principal
Accounting and Financial Officer