

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file no. 33-94288

THE FIRST BANCSHARES, INC.

-----  
(Exact name of registrant as specified in its charter)

Mississippi

64-0862173

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(I.R.S. Employer Identification Number)

6480 U.S. Hwy. 98 West  
Hattiesburg, Mississippi

39402

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Issuer's telephone number: (601) 268-8998

Securities registered under Section 12(b) of the Exchange Act:

Title of EacClass

Name of Each Exchange on  
Which Registered

-----  
Common Stock, \$1.00 par value

-----  
NASDAQ Stock Market, LLC

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

-----  
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.

Yes \_\_\_\_\_ No ☒ \_\_\_\_\_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes \_\_\_\_\_ No ☒ \_\_\_\_\_

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 \_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K ☒

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer \_\_\_\_\_ Accelerated filer \_\_\_\_\_ Non-accelerated filer ☒ Smaller reporting company \_\_\_\_\_

Based on the price at which the registrant's Common Stock was last sold at June 29, 2007, at that date, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant (assuming solely for

the purposes of this calculation that all directors and executive officers of the registrant are "affiliates") was \$55,606,023.

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 2,989,401 on March 25, 2008.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference to Parts II and III of the Form 10-K report: Proxy Statement dated April 17, 2008, and the Annual Report to the Stockholders for the year ended December 31, 2007.

---

THE FIRST BANCSHARES, INC.		
FORM 10-K		
TABLE OF CONTENTS		Page
PART I		
ITEM 1.	BUSINESS.....	1
ITEM 1A.	RISK FACTORS.....	10
ITEM 1B.	UNRESOLVED STAFF COMMENTS.....	14
ITEM 2.	PROPERTIES.....	14
ITEM 3.	LEGAL PROCEEDINGS.....	14
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	14
PART II		
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.....	14
ITEM 6.	SELECTED FINANCIAL DATA.....	14
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS.....	15
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES.....	15
ITEM 8.	FINANCIAL STATEMENTS.....	15
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	15
ITEM 9A(T).	CONTROLS AND PROCEDURES.....	15
ITEM 9B.	OTHER INFORMATION.....	16
PART III		
ITEM 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....	16
ITEM 11.	EXECUTIVE COMPENSATION.....	16
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.....	17
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	17
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES.....	17
PART IV		
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.....	17

---

#### THE FIRST BANCSHARES, INC. FORM 10-K

#### PART I

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements appear in a number of places in this Report and include all statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; and (iv) the declaration and payment of dividends. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein and those factors discussed in detail in the Company's filings with the Securities and Exchange Commission.

#### ITEM 1. BUSINESS.

##### BUSINESS OF THE COMPANY

##### General

The First Bancshares, Inc. (the "Company") was incorporated on June 23, 1995 to serve as a holding company for The First, A National Banking Association ("The First") located in Hattiesburg, Mississippi. The First began operations on August 5, 1996 from its main office in the Oak Grove community, which was on the outskirts of Hattiesburg but now is included in the city of Hattiesburg. In addition to the main office in Hattiesburg and the branch in Laurel, The First also operates two other branches in Hattiesburg, one in Purvis, one in Picayune, one in Pascagoula, one in Bay St. Louis, one in Wiggins, and one in Gulfport, Mississippi. The Company and its subsidiary bank engage in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns and individuals. The First is a wholly-owned subsidiary bank of the Company.

##### Location and Service Area

The First serves the cities of Hattiesburg, Laurel, Purvis, Picayune, Pascagoula, Bay St. Louis, Wiggins, Gulfport and the

surrounding areas of Lamar, Forrest, Jones, Pearl River, Jackson, Hancock, Stone and Harrison Counties, Mississippi. The First has a main office located in the city of Hattiesburg, Mississippi, in Lamar County. The First has a branch office located on Highway 589 in the city of Purvis, Mississippi, also in Lamar County, a third office located at the intersection of Lincoln Road and South 28th Avenue in Hattiesburg, a fourth location at 3318 Hardy Street in Hattiesburg, a fifth location at Hwy 15 North in Laurel, a sixth location at Hwy 43 South in Picayune, a seventh location at Jackson Avenue in Pascagoula, an eighth location at Hwy 90 in Bay St. Louis, a ninth location at Border Ave. in Wiggins and a tenth location at Hwy 49 and O'Neal Rd in Gulfport, Mississippi.

The main office primarily serves the area in and around the northern portion of Lamar County. The Purvis office primarily serves the area in and around Purvis, Mississippi, which is in the east central part of Lamar County and is the county seat. Lamar County is located in the southeastern section of Mississippi. Hattiesburg, one of the largest cities in Mississippi, is located in Forrest and Lamar Counties. The Laurel office serves the city of Laurel and the surrounding area of Jones County, Mississippi. The Picayune office primarily serves the area in and around Picayune, Mississippi, including areas of north Hancock County and Pearl River, LA and Slidell, LA. Picayune is located in the southern part of Pearl River County. Pearl River County is located in the southern section of Mississippi. The Pascagoula office primarily serves the area in and around Pascagoula, Mississippi, including areas of Jackson County. Hattiesburg can be reached via U.S. Highways 98 and 49 and Interstate 59. Major employers located in the Lamar and Forrest County areas include Forrest General Hospital, the University of Southern Mississippi, Wesley Medical Center, Camp Shelby, the Hattiesburg Public Schools, the Hattiesburg Clinic, the City of Hattiesburg, and Marshall Durbin Poultry. The principal components of the economy of the Lamar and Forrest County areas include service industries, wholesale and retail trade, manufacturing, and transportation and public utilities. The Laurel branch is located at 1945 Highway 15 North, Laurel, MS, with the majority of its retail business coming from the local area and the remaining business coming from other areas of Jones County, as well as portions of Jasper County, Wayne County, Smith County, and Covington County. Major employers in the Jones County area include Howard Industries, Sanderson Farms, Inc., and South Central Regional Medical Center. Major employers in the Pearl River County area include Stennis Space Center, Chevron, Texaco, Arizona Chemical, American Crescent Elevator Co., City of Picayune, Crosby Memorial Hospital and the public schools. The principal components of the economy of the Pearl River County area include timber, service industries, wholesale and retail trade, manufacturing, and transportation and public utilities. Major employers in the Jackson County area include Northrop Grumman, Singing River Hospital, and Shell Oil Company. The Bay St. Louis office serves the City of Bay St. Louis and the surrounding area of Hancock County, Mississippi. Bay St. Louis can be reached via U.S. Highway 90. Major employers in the Hancock County area include the City of Bay St. Louis, Hancock County, and Stennis Space Center. The Wiggins office serves the City of Wiggins and the surrounding area of Stone County, Mississippi. Stone County is south of Forrest County and north of Harrison County. Wiggins can be reached via U. S. Highway 49. The Gulfport office serves the City of Gulfport and the surrounding area of Harrison County, Mississippi. Gulfport can be reached via U.S. Highway 49. Major employers in the Harrison County area include Keesler Air Force Base and a vast array of casinos.

---

## Banking Services

The Company strives to provide its customers with the breadth of products and services comparable to those offered by large regional banks, while maintaining the quick response and personal service of a locally owned and managed bank. In addition to offering a full range of deposit services and commercial and personal loans, The First offers products such as mortgage loan originations. The following is a description of the products and services offered or planned to be offered by the Bank.

- *Deposit Services.* The Bank offers a full range of deposit services that are typically available in most banks and savings and loan associations, including checking accounts, NOW accounts, savings accounts, and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to the Bank's principal market area at rates competitive to those offered by other banks in the area. In addition, the Bank offers certain retirement account services, such as Individual Retirement Accounts (IRAs). All deposit accounts are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount allowed by law. The Bank solicits these accounts from individuals, businesses, associations and organizations, and governmental authorities.
- *Loan Products.* The Bank offers a full range of commercial and personal loans. Commercial loans include both secured and unsecured loans for working capital (including loans secured by inventory and accounts receivable), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include equity lines of credit and secured and unsecured loans for financing automobiles, home improvements, education, and personal investments. The Bank also makes real estate construction and acquisition loans. The Bank's lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the bank), in general the Bank is subject to a loans-to-one-borrower limit of an amount equal to 15% of the Bank's unimpaired capital and surplus. The Bank may not make any loans to any director, executive officer, or 10% shareholder unless the loan is approved by the Board of Directors of the Bank and is made on terms not more favorable to such a person than would be available to a person not affiliated with the Bank.
- *Mortgage Loan Divisions.* The Bank has mortgage loan divisions which originate loans to purchase existing or construct new homes and to refinance existing mortgages.
- *Other Services.* Other bank services include on-line Internet banking services, voice response telephone inquiry service, commercial sweep accounts, cash management services, safe deposit boxes, travelers checks, direct deposit of payroll and social security checks, and automatic drafts for various accounts. The Bank is associated with the Money Belt, Gulfnet, and Plus networks of automated teller machines that may be used by the Bank's customers throughout Mississippi and other regions. The Banks also offer VISA and MasterCard credit card services through a correspondent bank.

---

## Competition

The Bank generally competes with other financial institutions through the selection of banking products and services offered, the pricing of services, the level of service provided, the convenience and availability of services, and the degree of expertise and the personal manner in which services are offered. Mississippi law permits statewide branching by banks and savings institutions, and many financial institutions in the state have branch networks. Consequently, commercial banking in Mississippi is highly competitive. Many large banking organizations currently operate in the Company's market area, several of which are controlled by out-of-state ownership. In addition, competition between commercial banks and thrift institutions (savings institutions and credit unions) has been intensified significantly by the elimination of many previous distinctions between the various types of financial institutions and the expanded powers and increased activity of thrift institutions in areas of banking which previously had been

the sole domain of commercial banks. Federal legislation, together with other regulatory changes by the primary regulators of the various financial institutions, has resulted in the almost total elimination of practical distinctions between a commercial bank and a thrift institution. Consequently, competition among financial institutions of all types is largely unlimited with respect to legal ability and authority to provide most financial services.

The Company faces increased competition from both federally-chartered and state-chartered financial and thrift institutions, as well as credit unions, consumer finance companies, insurance companies, and other institutions in the Company's market area. Some of these competitors are not subject to the same degree of regulation and restriction imposed upon the Company. Many of these competitors also have broader geographic markets and substantially greater resources and lending limits than the Company and offer certain services such as trust banking that the Company does not currently provide. In addition, many of these competitors have numerous branch offices located throughout the extended market areas of the Company that may provide these competitors with an advantage in geographic convenience that the Company does not have at present.

Currently there are numerous other commercial banks, savings institutions, and credit unions operating in The First's primary service area.

#### **Employees**

As of March 25, 2008 the Company had 171 full-time employees and 13 part-time employees.

### **SUPERVISION AND REGULATION**

The Company and its bank are subject to state and federal banking laws and regulations which impose specific requirements or restrictions on and provide for general regulatory oversight with respect to virtually all aspects of operations. These laws and regulations are generally intended to protect depositors, not shareholders. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company. Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and following with Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), numerous additional regulatory requirements have been placed on the banking industry in the past several years, and additional changes have been proposed. The operations of the Company and the Bank may be affected by legislative changes and the policies of various regulatory authorities. The Company is unable to predict the nature or the extent of the effect on its business and earnings that fiscal or monetary policies, economic control, or new federal or state legislation may have in the future.

### **3**

---

#### **The Company**

Because it owns the outstanding capital stock of the Bank, the Company is a bank holding company within the meaning of the Federal Bank Holding Company Act of 1956 (the "BHCA").

*The BHCA .* Under the BHCA, the Company is subject to periodic examination by the Federal Reserve and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. The Company's and the Banks' activities are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

*Investments, Control, and Activities .* With certain limited exceptions, the BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company.

In addition, and subject to certain exceptions, the BHCA and the Change in Bank Control Act, together with regulations thereunder, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring "control" of a bank holding company, such as the Company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more but less than 25% of any class of voting securities and either the Company has registered securities under Section 12 of the Exchange Act (which the Company has done) or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenge of the rebuttable control presumption.

Under the BHCA, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in nonbanking activities, unless the Federal Reserve Board, by order or regulation, has found those activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve Board has determined by regulation to be proper incidents to the business of a bank holding company include making or servicing loans and certain types of leases, engaging in certain insurance and discount brokerage activities, performing certain data processing services, acting in certain circumstances as a fiduciary or investment or financial adviser, owning savings associations, and making investments in certain corporations or projects designed primarily to promote community welfare.

The Federal Reserve Board has imposed certain capital requirements on the Company under the BHCA, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are described below under "Capital Regulations." Subject to its capital requirements and certain other restrictions, the Company may borrow money to make a capital contribution to the Banks, and such loans may be repaid from dividends paid from the Bank to the Company (although the ability of the Bank to pay dividends is subject to regulatory restrictions as described below in "The Bank - Dividends"). The Company is also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

*Source of Strength; Cross-Guarantee .* In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Company might not otherwise do so. Under the BHCA, the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to

require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

---

## The Bank

The Bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of Comptroller of the Currency ("OCC"). Deposits in the Bank are insured by the FDIC up to a maximum amount (generally \$100,000 per depositor, subject to aggregation rules). The OCC and the FDIC regulate or monitor virtually all areas of the Bank's operations, including security devices and procedures, adequacy of capitalization and loan loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC requires the Bank to maintain certain capital ratios and imposes limitations on the Bank's aggregate investment in real estate, bank premises, and furniture and fixtures. The Bank is required by the OCC to prepare quarterly reports on their financial condition and to conduct an annual audit of their financial affairs in compliance with minimum standards and procedures prescribed by the OCC.

Under FDICIA, all insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC and the appropriate agency (and state supervisor when applicable). FDICIA also directs the FDIC to develop with other appropriate agencies a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition, or any other report of any insured depository institution. FDICIA also requires the federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to: (i) internal controls, information systems, and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset quality.

National banks and their holding companies which have been chartered or registered or undergone a change in control within the past two years or which have been deemed by the OCC or the Federal Reserve Board, respectively, to be troubled institutions must give the OCC or the Federal Reserve Board, respectively, thirty days prior notice of the appointment of any senior executive officer or director. Within the thirty day period, the OCC or the Federal Reserve Board, as the case may be, may approve or disapprove any such appointment.

*Deposit Insurance .* The FDIC establishes rates for the payment of premiums by federally insured banks and thrifts for deposit insurance. A separate Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF") are maintained for commercial banks and thrifts, respectively, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail. Since 1993, insured depository institutions like the Bank have paid for deposit insurance under a risk-based premium system.

*Transactions With Affiliates and Insiders .* The Bank is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans to, and certain other transactions with, affiliates, as well as on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements.

The Bank is also subject to Section 23B of the Federal Reserve Act, which prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution, as those prevailing at the time for comparable transactions with nonaffiliated companies. The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

---

*Dividends .* A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless the bank has transferred to surplus no less than one-tenth of its net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, under FDICIA, the banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized. See "Capital Regulations" below.

*Branching .* National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current Mississippi law, the Banks may open branches throughout Mississippi with the prior approval of the OCC. In addition, with prior regulatory approval, the Banks are able to acquire existing banking operations in Mississippi. Furthermore, federal legislation has recently been passed which permits interstate branching. The new law permits out of state acquisitions by bank holding companies (subject to veto by new state law), interstate branching by banks if allowed by state law, interstate merging by banks, and de novo branching by national banks if allowed by state law. See "Recent Legislative Developments."

*Community Reinvestment Act .* The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC, the OCC, or the Office of Thrift Supervision shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

*Other Regulations .* Interest and certain other charges collected or contracted for by the Banks are subject to state usury laws and certain federal laws concerning interest rates. The Bank's loan operations are subject to certain federal laws applicable to



credit transactions, such as the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs community it serves; the Equal Credit Opportunity Act, prohibiting discrimination on the basis of creed or other prohibited factors in extending credit; the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; the Fair Debt Collection Act, concerning the manner in which consumer debts may be collected by collection agencies; and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of the Bank also are subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

**Capital Regulations .** The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies, account for off-balance sheet exposure, and minimize disincentives for holding liquid assets. The resulting capital ratios represent qualifying capital as a percentage of total risk-weighted assets and off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that banks and bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios well in excess of the minimums. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan and lease losses. Tier 2 capital includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets.

---

6

---

Under the guidelines, banks' and bank holding companies' assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for first mortgage loans fully secured by residential property and, under certain circumstances, residential construction loans, both of which carry a 50% rating. Most investment securities are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% rating, and direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies, which have a 0% rating.

The federal bank regulatory authorities have also implemented a leverage ratio, which is Tier 1 capital as a percentage of average total assets less intangibles, to be used as a supplement to the risk-based guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank holding company may leverage its equity capital base. The minimum required leverage ratio for top-rated institutions is 3%, but most institutions are required to maintain an additional cushion of at least 100 to 200 basis points.

FDICIA established a capital-based regulatory scheme designed to promote early intervention for troubled banks and requires the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." To qualify as a "well capitalized" institution, a bank must have a leverage ratio of no less than 5%, a Tier 1 risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the Bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. As of December 31, 2006, the Company and The First, were qualified as "well capitalized."

Under the FDICIA regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees; or (vi) divest themselves of all or part of their operations. Bank holding companies controlling financial institutions can be called upon to boost the institutions' capital and to partially guarantee the institutions' performance under their capital restoration plans.

These capital guidelines can affect the Company in several ways. If the Company continues to grow at a rapid pace, a premature "squeeze" on capital could occur making a capital infusion necessary. The requirements could impact the Company's ability to pay dividends. The Company's present capital levels are more than adequate; however, rapid growth, poor loan portfolio performance, or poor earnings performance could change the Company's capital position in a relatively short period of time.

Failure to meet these capital requirements would mean that a bank would be required to develop and file a plan with its primary federal banking regulator describing the means and a schedule for achieving the minimum capital requirements. In addition, such a bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless the Bank could demonstrate a reasonable plan to meet the capital requirement within a reasonable period of time.

**Enforcement Powers .** FIRREA expanded and increased civil and criminal penalties available for use by the federal regulatory agencies against depository institutions and certain "institution-affiliated parties" (primarily including management, employees, and agents of a financial institution, independent contractors such as attorneys and accountants, and others who participate in the conduct of the financial institution's affairs). These practices can include the failure of an institution to timely file required reports; the filing of false or misleading information; or the submission of inaccurate reports. Civil penalties may be as high as \$1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, FIRREA expanded the appropriate banking agencies' power to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications, or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

---

*Effect of Governmental Monetary Policies .* The earnings of the Bank are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments, and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

*Significant Legislative Developments .* On September 29, 1994, the federal government enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act"). This Act became effective on September 29, 1995 and permits eligible bank holding companies in any state, with regulatory approval, to acquire banking organizations in any other state. Since June 1, 1997, the Interstate Banking Act has allowed banks with different home states to merge, unless a particular state opts out of the statute. In addition, beginning June 1, 1997, the Interstate Banking Act has permitted national and state banks to establish de novo branches in another state if there is a law in that state which applies equally to all banks and expressly permits all out-of-state banks to establish de novo branches.

On November 12, 1999, the Gramm- Leach-Bliley Act of 1999 (the "Financial Services Modernization Act") was signed into law. The Financial Services Modernization Act repeals the two affiliation provisions of the Glass-Steagall Act: Section 20, which restricted the affiliation of Federal Reserve Member Banks with firms "engaged principally" in specified securities activities; and Section 32, which restricts officer, director, or employee interlocks between a member bank and any company or person "primarily engaged" in specified securities activities. In addition, the Financial Services Modernization Act also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHCA framework to permit a holding company system to engage in a full range of financial activities through a new entity known as a Financial Holding Company. "Financial activities" is broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

Generally, the Financial Services Modernization Act:

- Repeals historical restrictions on, and eliminates many federal and state law barriers to, affiliations among banks, securities firms, insurance companies, and other financial service providers;
- Provides a uniform framework for the functional regulation of the activities of banks, savings institutions, and their holding companies;
- Broadens the activities that may be conducted by national banks, banking subsidiaries of bank holding companies, and their financial subsidiaries;
- Provides an enhanced framework for protecting the privacy of consumer information;
- Adopts a number of provisions related to the capitalization, membership, corporate governance, and other measures designed to modernize the Federal Home Loan Bank system;
- Modifies the laws governing the implementation of the Community Reinvestment Act ("CRA"); and
- Addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

In order for a bank holding company to take advantage of the ability to affiliate with other financial services providers, that company must become a "Financial Holding Company" as permitted under an amendment to the BHCA. To become a Financial Holding Company, the company would file a declaration with the Federal Reserve, electing to engage in activities permissible for Financial Holding Companies and certifying that it is eligible to do so because all of its insured depository institution subsidiaries are well-capitalized and well-managed. In addition, the Federal Reserve must also determine that each insured depository institution subsidiary of the Company has at least a "satisfactory" CRA rating.

The Financial Services Modernization Act also permits national banks to engage in expanded activities through the formation of financial subsidiaries. A national bank may have a subsidiary engaged in any activity authorized for national banks directly or any financial activity, except for insurance underwriting, insurance investments, real estate investment or development, or merchant banking, which may only be conducted through a subsidiary of a Financial Holding Company. Financial activities include all activities permitted under new sections of the BHCA or permitted by regulation.

A national bank seeking to have a financial subsidiary, and each of its depository institution affiliates, must be "well-capitalized" and "well-managed." The total assets of all financial subsidiaries may not exceed the lesser of 45% of a bank's total assets, or \$50 billion. A national bank must exclude from its assets and equity all equity investments, including retained earnings, in a financial subsidiary. The assets of the subsidiary may not be consolidated with the bank's assets. The bank must also have policies and procedures to assess financial subsidiary risk and protect the bank from such risks and potential liabilities.

The Financial Services Modernization Act also includes a new section of the Federal Deposit Insurance Act governing subsidiaries of state banks that engage in "activities as principal that would only be permissible" for a national bank to conduct in a financial subsidiary. It expressly preserves the ability of a state bank to retain all existing subsidiaries. Because Mississippi permits commercial banks chartered by the state to engage in any activity permissible for national banks, the state bank competitors of The First will be permitted to form subsidiaries to engage in the activities authorized by the Financial Services Modernization Act, to the same extent as The First. In order to form a financial subsidiary, a state bank must be well-capitalized, and the state bank would be subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks.

During January 2001, the Company made application and was approved by the Federal Reserve Bank to become a financial holding

company; however, the Company has no current plans to pursue expanded activities under the Financial Services Modernization Act. The Company's management has not determined at this time whether it will seek to form a financial subsidiary. The Company is examining its strategic business plan to determine whether, based on market conditions, the relative financial conditions of the Company and its subsidiaries, regulatory capital requirements, general economic conditions, and other factors, the Company desires to utilize any of its expanded powers provided in the Financial Services Modernization Act.

The Company and the Bank do not believe that the Financial Services Modernization Act will have a material adverse effect on operations in the near-term. However, to the extent that it permits banks, securities firms, and insurance companies to affiliate, the financial services industry may experience further consolidation. The Financial Services Modernization Act is intended to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, this act may have the result of increasing the amount of competition that the Company and the Bank face from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Company and the Bank.

---

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act) was signed into law. The USA Patriot Act broadened the application of anti-money laundering regulations to apply to additional types of financial institutions, such as broker-dealers, and strengthened the ability of the U.S. Government to detect and prosecute international money laundering and the financing of terrorism. The principal provisions of Title III of the USA Patriot Act require that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certification of money laundering risk for their foreign correspondent banking relationships. The USA Patriot Act also expanded the conditions under which funds in a U.S. interbank account may be subject to forfeiture and increased the penalties for violation of anti-money laundering regulations. Failure of a financial institution to comply with the USA Patriot Act's requirements could have serious legal and reputational consequences for the institution. The Bank has adopted policies, procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update its policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulations.

In July 2002, Congress enacted the Sarbanes-Oxley Act of 2002, which addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Section 404 of the Sarbanes-Oxley Act, and regulations adopted by the SEC will in the future require the Company to include in its Annual Report, a report stating management's responsibility to establish and maintain adequate internal control over financial reporting and management's conclusion on the effectiveness of the internal controls at year end. Additionally, the Company's independent registered public accounting firm will in the future be required to attest to and report on management's evaluation of internal control over financial reporting.

From time to time, various bills are introduced in the United States Congress with respect to the regulation of financial institutions. Certain of these proposals, if adopted, could significantly change the regulation of banks and the financial services industry. The Company cannot predict whether any of these proposals will be adopted or, if adopted, how these proposals would affect the Company.

#### **ITEM 1A. RISK FACTORS.**

Making or continuing an investment in securities, including The First Bancshares' Common Stock, involves certain risks that you should carefully consider. The risks and uncertainties described below are not the only risks that may have a material adverse effect on First Bancshares. Additional risks and uncertainties also could adversely affect First Bancshares' business and results of operations. If any of the following risks actually occur, First Bancshares' business, financial condition or results of operations could be affected, the market price for your securities could decline, and you could lose all or a part of your investment. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements identifying important factors that could cause First Bancshares' actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of First Bancshares .

*First Bancshares may be vulnerable to certain sectors of the economy .*

A portion of First Bancshares' loan portfolio is secured by real estate. If the economy deteriorated and depressed real estate values beyond a certain point, that collateral value of the portfolio and the revenue stream from those loans could come under stress and possibly require additional loan loss accruals. First Bancshares' ability to dispose of foreclosed real estate at prices above the respective carrying values could also be impinged, causing additional losses.

General economic conditions in the areas where First Bancshares' operations or loans are concentrated may adversely affect our customers' ability to meet their obligations.

---

A sudden or severe downturn in the economy in the geographic markets served by First Bancshares in the state of Mississippi may affect the ability of First Bancshares' customers to meet loan payments obligations on a timely basis. The local economic conditions in these areas have a significant impact on First Bancshares' commercial, real estate, and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing such loans. Changes resulting in adverse economic conditions of First Bancshares' market areas could negatively impact the financial results of First Bancshares' banking operations and its profitability. Additionally, adverse economic changes may cause customers to withdraw deposit balances, thereby causing a strain on First Bancshares' liquidity.

*First Bancshares is subject to a risk of rapid and significant changes in market interest rates .*

First Bancshares' assets and liabilities are primarily monetary in nature, and as a result First Bancshares is subject to significant risks tied to changes in interest rates. First Bancshares' ability to operate profitably is largely dependent upon net interest income. Unexpected movement in interest rates markedly changing the slope of the current yield curve could cause First Bancshares' net interest margins to decrease, subsequently decreasing net interest income. In addition, such changes could



adversely affect the valuation of First Bancshares' assets and liabilities.

At present First Bancshares' one-year interest rate sensitivity position is slightly asset sensitive, but a gradual increase in interest rates during the next twelve months should not have a significant impact on net interest income during that period. However, as with most financial institutions, First Bancshares' results of operations are affected by changes in interest rates and First Bancshares' ability to manage this risk. The difference between interest rates charged on interest-earning assets and interest rates paid on interest-bearing liabilities may be affected by changes in market interest rates, changes in relationships between interest rate indices, and/or changes in the relationships between long-term and short-term market interest rates. A change in this difference might result in an increase in interest expense relative to interest income, or a decrease in First Bancshares' interest rate spread.

Certain changes in interest rates, inflation, or the financial markets could affect demand for First Bancshares' products and First Bancshares' ability to deliver products efficiently.

Loan originations, and potentially loan revenues, could be adversely impacted by sharply rising interest rates. Conversely, sharply falling rates could increase prepayments within First Bancshares' securities portfolio lowering interest earnings from those investments. An unanticipated increase in inflation could cause First Bancshares' operating costs related to salaries & benefits, technology, & supplies to increase at a faster pace than revenues.

The fair market value of First Bancshares' securities portfolio and the investment income from these securities also fluctuate depending on general economic and market conditions. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations.

*Changes in the policies of monetary authorities and other government action could adversely affect First Bancshares' profitability .*

The results of operations of First Bancshares are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist attacks and the current military operations in the Middle East, we cannot predict possible future changes in interest rates, deposit levels, loan demand or First Bancshares' business and earnings. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks or the military operations in the Middle East may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

## 11

---

*Natural disasters could affect First Bancshares' ability to operate*

First Bancshares' market areas are susceptible to natural disasters such as hurricanes. Natural disasters can disrupt First Bancshares' operations, result in damage to properties and negatively affect the local economies in which First Bancshares operates. First Bancshares cannot predict whether or to what extent damage caused by future hurricanes will affect First Bancshares' operations or the economies in First Bancshares' market areas, but such weather events could cause a decline in loan originations, a decline in the value or destruction of properties securing the loans and an increase in the risk of delinquencies, foreclosures or loan losses.

*Greater loan losses than expected may adversely affect First Bancshares' earnings .*

First Bancshares as lender is exposed to the risk that its customers will be unable to repay their loans in accordance with their terms and that any collateral securing the payment of their loans may not be sufficient to assure repayment. Credit losses are inherent in the business of making loans and could have a material adverse effect on First Bancshares' operating results. First Bancshares' credit risk with respect to its real estate and construction loan portfolio will relate principally to the creditworthiness of corporations and the value of the real estate serving as security for the repayment of loans. First Bancshares' credit risk with respect to its commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within First Bancshares' local markets.

First Bancshares makes various assumptions and judgments about the collectibility of its loan portfolio and provide an allowance for estimated loan losses based on a number of factors. First Bancshares believes that its current allowance for loan losses is adequate. However, if First Bancshares' assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. First Bancshares may have to increase its allowance in the future in response to the request of one of its primary banking regulators, to adjust for changing conditions and assumptions, or as a result of any deterioration in the quality of First Bancshares' loan portfolio. The actual amount of future provisions for loan losses cannot be determined at this time and may vary from the amounts of past provisions.

*First Bancshares may need to rely on the financial markets to provide needed capital*

First Bancshares' Common Stock is listed and traded on the NASDAQ stock market. Although First Bancshares anticipates that its capital resources will be adequate for the foreseeable future to meet its capital requirements, at times First Bancshares may depend on the liquidity of the NASDAQ stock market to raise equity capital. If the market should fail to operate, or if conditions in the capital markets are adverse, First Bancshares may be constrained in raising capital. First Bancshares maintains a consistent analyst following; therefore, downgrades in First Bancshares' prospects by an analyst(s) may cause First Bancshares' Common Stock price to fall and significantly limit First Bancshares' ability to access the markets for additional capital requirements. Should these risks materialize, First Bancshares' ability to further expand its operations through internal growth may be limited.

*First Bancshares is subject to regulation by various Federal and State entities*

First Bancshares is subject to the regulations of the Securities and Exchange Commission ("SEC"), the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the OCC. New regulations issued by these agencies may adversely affect First Bancshares' ability to carry on its business activities. First Bancshares is subject to various Federal and state laws and certain changes in these laws and regulations may adversely affect First Bancshares' operations.

First Bancshares is also subject to the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of First Bancshares

and may also require extraordinary efforts or additional costs to implement. Any of these laws or regulations may be modified or changed from time to time, and First Bancshares cannot be assured that such modifications or changes will not adversely affect First Bancshares.

---

12

*First Bancshares engages in acquisitions of other businesses from time to time .*

On occasion, First Bancshares will engage in acquisitions of other businesses. Acquisitions may result in customer and employee turnover, thus increasing the cost of operating the new businesses. The acquired companies may also have legal contingencies, beyond those that First Bancshares is aware of, that could result in unexpected costs.

*First Bancshares is subject to industry competition which may have an impact upon its success .*

The profitability of First Bancshares depends on its ability to compete successfully. First Bancshares operates in a highly competitive financial services environment. Certain competitors are larger and may have more resources than First Bancshares does. First Bancshares faces competition in its regional market areas from other commercial banks, savings and loan associations, credit unions, internet banks, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, and other financial intermediaries that offer similar services. Some of First Bancshares' nonbank competitors are not subject to the same extensive regulations that govern First Bancshares or the Bank and may have greater flexibility in competing for business.

Another competitive factor is that the financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. First Bancshares' future success may depend, in part, on its ability to use technology competitively to provide products and services that provide convenience to customers and create additional efficiencies in First Bancshares' operations.

*Future issuances of additional securities could result in dilution of shareholders' ownership .*

First Bancshares may determine from time to time to issue additional securities to raise additional capital, support growth, or to make acquisitions. Further, First Bancshares may issue stock options or other stock grants to retain and motivate First Bancshares' employees. Such issuances of Company securities will dilute the ownership interests of First Bancshares' shareholders.

*Anti-takeover laws and certain agreements and charter provisions may adversely affect share value .*

Certain provisions of state and federal law and First Bancshares' articles of incorporation may make it more difficult for someone to acquire control of First Bancshares. Under federal law, subject to certain exemptions, a person, entity, or group must notify the federal banking agencies before acquiring 10% or more of the outstanding voting stock of a bank holding company, including First Bancshares' shares. Banking agencies review the acquisition to determine if it will result in a change of control. The banking agencies have 60 days to act on the notice, and take into account several factors, including the resources of the acquiror and the antitrust effects of the acquisition. There also are Mississippi statutory provisions and provisions in First Bancshares' articles of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in First Bancshares' articles of incorporation could result in First Bancshares being less attractive to a potential acquiror.

*Securities issued by First Bancshares, including First Bancshares' Common Stock, are not FDIC insured .*

Securities issued by First Bancshares, including First Bancshares' Common Stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the Deposit Insurance Fund, or any other governmental agency or instrumentality, or any private insurer, and are subject to investment risk, including the possible loss of principal.

13

---

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not Applicable

**ITEM 2. PROPERTIES.**

The First has a main office located west of the city of Hattiesburg, Mississippi, in Lamar County. The main office is located in a 13,000 square foot facility which the Company constructed and opened in January 1997 on a two acre plot of land at the southwest corner of U.S. Highway 98 and Old Highway 11. The First also has a branch office located on Highway 15 North in the city of Laurel, Mississippi, one on Highway 589 in the city of Purvis, Mississippi, which is in Lamar County, a fourth office in a 3,300 square foot facility located at the intersection of Lincoln Road and South 28th Avenue in Hattiesburg, a fifth office located at 3318 Hardy Street in Hattiesburg, which will be closing on April 11, 2008 and reopening in an 11,700 square foot building located at 110 S. 40th Ave., Hattiesburg, MS, on April 14, 2008, a sixth office located on Hwy 43 South, Picayune, MS in a 3,800 sq. ft. facility, a seventh office located at 1126 Jackson Ave in Pascagoula, MS, an eighth office located at Hwy 90 in Bay St. Louis, MS, a ninth location on Border Ave. in Wiggins, MS, as well as a tenth location located at Hwy 49 and O'Neal Rd. in Gulfport, MS.

The Company believes that the Bank's facilities will adequately serve their needs.

**ITEM 3. LEGAL PROCEEDINGS.**

From time to time the Company and/or the Bank may be named as defendants in various lawsuits arising out of the normal course of business. On October 8, 2007 The First Bancshares, Inc. (the "Company") and its subsidiary, The First, A National Banking Association (the "Bank") were formally named as defendants and served with a First Amended Complaint in litigation styled Nick D. Welch v. Oak Grove Land Company, Inc., Fred McMurry, David E. Johnson, J. Douglas Seidenburg, The First, a National Banking Association, The First Bancshares, Inc., and John Does 1 through 10, Civil Action No. 2006-236-CV4, pending in the Circuit Court of Jones County, Mississippi, Second Judicial District (the "First Amended Complaint").

The allegations by Welch against the Company and the Bank include counts of 1) Intentional Misrepresentation and Omission; 2) Negligent Misrepresentation and/or Omission; 3) Breach of Fiduciary Duty; 4) Breach of Duty of Good Faith and Fair Dealing; and 5) Civil Conspiracy. The First Amended Complaint served by Welch on October 8, 2007 added the Company and the Bank as defendants in

this ongoing litigation. The First Amended Complaint seeks damages from all the defendants, including \$2,420,775.00, annual dividends for the year 2006 in the amount of \$.30 per share, punitive damages, and attorneys' fees and costs, and is more fully described in Form 8-K filed by the Company on October 10, 2007. Each of the Company and the Bank deny any liability to Welch, and they intend to defend vigorously against this lawsuit.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

In response to this Item, the information contained on page 53 of the Company's Annual Report to Shareholders for the year ended December 31, 2007, is incorporated herein by reference.

**ITEM 6. SELECTED FINANCIAL DATA.**

In response to this Item, the information contained on page 7 of Management's Discussion and Analysis for the year ended December 31, 2007, is incorporated herein by reference.

**14**

---

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

In response to this Item, the information contained on pages 6 through 23 of the Company's Annual Report to Shareholders for the year ended December 31, 2007, is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS.**

In response to this Item, the information contained on pages 25 through 52 of the Company's Annual Report to Shareholders for the year ended December 31, 2007, is incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

Not applicable.

**ITEM 9A(T). CONTROLS AND PROCEDURES.**

The Company's principal executive officer and principal financial officer have concluded, based upon their evaluation of the Company's disclosure controls and procedures as of December 31, 2007, that the Company's disclosure controls and procedures were effective. During the quarter ended December 31, 2007, no changes have occurred in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**The First Bancshares, Inc.  
Management's Report on Internal Control Over Financial Reporting**

Management of The First Bancshares, Inc. and subsidiary (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 12a-15(f), as of December 31, 2007.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. These inherent limitations, however, are known features of the financial reporting process. It is possible, therefore, to design into the process safeguards to reduce, though not eliminate, this risk.

**15**

---

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ David E. Johnson

-----  
Chairman of the Board and CEO  
March 28, 2008

/s/ Dee Dee Lowery

-----  
Executive VP and Chief Financial Officer  
March 28, 2008

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

In response to this Item, the information contained under the captions, "Election of Directors" and "Additional Information Concerning Directors and Officers" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference.

*Code of Ethics*

The Company's Board of Directors has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. A copy of this Code of Ethics can be found at the Company's internet website at [www.thefirstbank.com](http://www.thefirstbank.com). The Company intends to disclose any amendments to its Code of Ethics, and any waiver from a provision of the Code of Ethics granted to the Company's principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions, on the Company's internet website within five business days following such amendment or waiver. The information contained on or connected to the Company's internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.

*Audit Committee*

The information contained under the caption "Committees of the Board of Directors" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference. The Board of Directors has determined that there is at least one independent audit committee financial expert, J. Douglas Seidenburg, serving on the Audit Committee, as the terms independent and audit committee financial expert are used in pertinent Securities and Exchange Commission laws and regulations.

*Corporate Governance*

The information contained under the caption "Additional Information Concerning Directors and Officers" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

In response to this Item, the information contained under the caption "Compensation Discussion and Analysis" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference.

16

---

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

In response to this Item, the information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

In response to this Item, the information contained under the caption "Certain Relationships and Related Transactions" of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

In response to this Item, the information contained under the caption "Principal Accountant Fees and Services" of the Company's Proxy Statement for the Annual meeting of Shareholders to be held on May 22, 2008, is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

The following exhibits are furnished (or incorporated by reference):

Exhibit Number	Description
-----	-----
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement No. 33-94288 on Form S-1).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement No. 33-94288 on Form S-1).
4.1	Provisions in the Company's Articles of Incorporation and Bylaws defining the rights of holders of the Company's Common Stock (incorporated by reference to Exhibit 4.1 to the Company's

Registration Statement No. 33-94288 on Form S-1).

4.2	Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement No. 33-94288 on Form S-1).
10.5	Amended and restated employment agreement dated November 20, 1995, by and between David E. Johnson and the Company (incorporated by reference to Exhibit 10.7 of the Company's Form 10-KSB for the fiscal year ended December 31, 1995, File No. 33-94288).
10.6	First Bancshares, Inc. 1997 Stock Option Plan as of March 18, 1997 (incorporated by reference to Exhibit 10.7 of the Company's Form 10-KSB for the fiscal year ended December 31, 1996, File No. 33-94288).
10.7	Agreement to Repurchase Stock by and among The First Bancshares, Inc., Nick Welch and David Johnson (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement No. 33-102908 on Form S-2).
13	The Company's 2007 Annual Report
21	Subsidiaries of the Company
23	Consent of Independent Registered Public Accounting Firm
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications

---

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.

THE FIRST BANCSHARES, INC.

Date: March 28, 2008

By: /s/ David E. Johnson

-----  
David E. Johnson  
Chief Executive Officer (Principal Executive Officer)

Date: March 28, 2008

By: /s/ Dee Dee Lowery

-----  
Dee Dee Lowery  
Executive VP and Chief Financial Officer  
(Principal Financial and Principal Accounting 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.

SIGNATURES	CAPACITIES	DATE
-----	-----	----
/s/ David W. Bomboy -----	Director	March 28, 2008
/s/ Michael Chancellor -----	Director	March 28, 2008
/s/ M. Ray "Hoppy" Cole, Jr. -----	President and Director	March 28, 2008
/s/ E. Ricky Gibson -----	Director	March 28, 2008
/s/ Peeler G. Lacey, M.D. -----	Director	March 28, 2008
/s/ Charles R. Lightsey -----	Director	March 28, 2008
/s/ Fred A. McMurry -----	Director	March 28, 2008
/s/ Gregory M. Mitchell -----	Director	March 28, 2008
/s/ Ted Parker -----	Director	March 28, 2008
/s/ Gerald C. Patch -----	Director	March 28, 2008
/s/ J. Douglas Seidenburg	Director	March 28, 2008



-----	Vice-Chairman	
/s/ Ralph T. Simmons	Director	March 28, 2008
-----		
/s/ A. L. Smith	Director	March 28, 2008
-----		
/s/ Dennis Pierce	Director	March 28 ,2008
-----		
/s/ Andrew D. Stetelman	Director	March 28, 2008
-----		
/s/ David E. Johnson	Chairman, CEO Director (Principal Executive Officer)	March 28, 2008
-----		
/s/ Dee Dee Lowery	Executive VP & Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2008
-----		

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

## Purpose

The purpose of management's discussion and analysis is to make the reader aware of the significant components, events, and changes in the consolidated financial condition and results of operations of the Company and its subsidiaries during the year ended December 31, 2007. The Company's consolidated financial statements and related notes should also be considered.

## Critical Accounting Policies

In the preparation of the Company's consolidated financial statements, certain significant amounts are based upon judgment and estimates. The most critical of these is the accounting policy related to the allowance for loan losses. The allowance is based in large measure upon management's evaluation of borrowers' abilities to make loan payments, local and national economic conditions, and other subjective factors. If any of these factors were to deteriorate, management would update its estimates and judgments which may require additional loss provisions.

## Overview

The Company was incorporated on June 23, 1995, and serves as a financial holding company for The First, A National Banking Association ("The First"), located in Hattiesburg, Mississippi. The First began operations on August 5, 1996, from its main office in the Oak Grove community, which is on the western side of Hattiesburg. The First currently operates its main office and two branches in Hattiesburg, one in Laurel, one in Purvis, one in Picayune, one in Pascagoula, one in Bay St. Louis, one in Wiggins and one in Gulfport, Mississippi. The Company and its subsidiary bank engage in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns, and individuals. The First is a wholly-owned subsidiary bank of the Company.

The Company's primary source of revenue is interest income and fees, which it earns by lending and investing the funds which are held on deposit. Because loans generally earn higher rates of interest than investments, the Company seeks to employ as much of its deposit funds as possible in the form of loans to individuals, businesses, and other organizations. To ensure sufficient liquidity, the Company also maintains a portion of its deposits in cash, government securities, deposits with other financial institutions, and overnight loans of excess reserves (known as "Federal Funds sold") to correspondent banks. The revenue which the Company earns (prior to deducting its overhead expenses) is essentially a function of the amount of the Company's loans and deposits, as well as the profit margin ("interest spread") and fee income which can be generated on these amounts.

The Company grew from approximately \$417.8 million in total assets, \$287.9 million in loans, \$351.7 million in deposits, and \$32.4 million in shareholders' equity at December 31, 2006 to approximately \$496.1 million in total assets, \$371.2 million in loans, \$386.2 million in deposits, and \$36.3 million in shareholders' equity at December 31, 2007. The First reported net income of \$4,031,000 and \$3,697,000 for the years ended December 31, 2007, and 2006, respectively. For the years ended December 31, 2007 and 2006, the Company reported consolidated net income of \$3,823,000 and \$3,315,000, respectively. The following discussion should be read in conjunction with the "Selected Consolidated Financial Data" and the Company's Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere.

The following table demonstrates the Company's growth during each calendar year.

### SELECTED CONSOLIDATED FINANCIAL HIGHLIGHTS (Dollars In Thousands, Except Per Share Data)

	December 31,				
	2007	2006	2005	2004	2003
<b>Earnings:</b>					
Net interest income	\$ 18,256	\$ 14,383	\$ 10,150	\$ 7,815	\$ 7,309
Provision for loan Losses	1,321	800	921	672	468
Noninterest income	3,189	2,239	1,682	1,963	1,772
Noninterest expense	14,823	11,138	8,138	7,228	7,134
Net income	3,823	3,315	1,909	1,243	1,007
<b>Per share data:</b>					
Basic net income per Share	\$ 1.28	\$ 1.35	\$ .81	\$ .53	\$ .43
Diluted net income per Share	1.25	1.27	.77	.51	.41
<b>Selected Year End Balances:</b>					
Total assets	\$ 496,056	\$ 417,769	\$ 294,390	\$ 212,396	\$ 164,941
Securities	87,052	91,810	50,660	28,522	31,445
Loans, net of Allowance	367,002	284,082	197,943	162,716	114,076
Deposits	386,168	351,722	241,949	156,830	121,698
Stockholders' equity	36,281	32,365	18,478	16,740	15,651

## Results of Operations

The following is a summary of the results of operations by The First for the years ended December 31, 2007 and 2006.

2007	2006
----- (In thousands)	

Interest income	\$ 33,382	\$ 23,736
Interest expense	14,743	8,671
	-----	-----
Net interest income	18,639	15,065
Provision for loan losses	1,321	800
	-----	-----
Net interest income after provision for loan losses	17,318	14,265
	-----	-----
Other income	2,880	2,005
Other expense	14,446	10,844
Income tax expense	1,721	1,729
	-----	-----
Net income	\$ 4,031	\$ 3,697
	=====	=====

The following reconciles the above table to the amounts reflected in the consolidated financial statements of the Company at December 31, 2007 and 2006:

	2007	2006
	-----	-----
	(In thousands)	
Net interest income:		
Net income of subsidiary bank	\$ 18,639	\$ 15,065
Intercompany eliminations	(383)	(682)
	-----	-----
	\$ 18,256	\$ 14,383
	=====	=====
Net income:		
Net income of subsidiary bank	\$ 4,031	\$ 3,697
Net loss of the Company, excluding Intercompany accounts	(208)	(382)
	-----	-----
	\$ 3,823	\$ 3,315
	=====	=====

#### Consolidated Net Income

The Company reported consolidated net income of \$3,823,000 for the year ended December 31, 2007, compared to a consolidated net income of \$3,315,000 for the year ended December 31, 2006. This was the result of an increase in interest income of \$9,640,000 due to the continued growth of earning assets. The increase in income was partially offset by a net increase in noninterest expense of \$3,684,000, which was the result of anticipated staff additions and other operating costs related to the growth of the subsidiary bank and the opening of the new location in Gulfport.

#### Consolidated Net Interest Income

The largest component of net income for the Company is net interest income, which is the difference between the income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on the Company's interest-earning assets and the rates paid on its interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Consolidated net interest income was \$18,256,000 for the year ended December 31, 2007, as compared to \$14,383,000 for the year ended December 31, 2006. This increase was the direct result of an increase in average earning assets for the year 2007 to \$434,096,000 compared to \$315,217,000 for the year 2006. This increase in earning assets was funded by an increase in deposits and by Federal Home Loan Bank (FHLB) borrowings. Deposits at December 31, 2007, totaled \$386,168,000 compared to \$351,722,000 at December 31, 2006. Average interest-bearing liabilities for the year 2007 were \$366,567,000 compared to \$262,165,000 for the year 2006. At December 31, 2007, the net interest spread, the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.56% compared to 3.96% at December 31, 2006. The net interest margin (which is net interest income divided by average earning assets) was 4.21% for the year 2007 compared to 4.56% for the year 2006. Rates paid on average interest-bearing liabilities increased from 3.58% for the year 2006 to 4.13% for the year 2007. Interest earned on assets and interest accrued on liabilities is significantly influenced by market factors, specifically interest rates as set by Federal agencies. Average loans comprised 77.9% of average earning assets for the year 2007 compared to 75.4% for the year 2006.

*Average Balances, Income and Expenses, and Rates* . The following tables depict, for the periods indicated, certain information related to the average balance sheet and average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

#### Average Balances, Income and Expenses, and Rates

	Years Ended December 31,								
	2007			2006			2005		
	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate
<b>Assets</b>	(Dollars in thousands)								
<b>Earning Assets</b>									
Loans (1)(2)	\$338,368	\$28,732	8.49%	\$237,578	\$19,976	8.41%	\$189,187	\$14,097	7.45%
	90,638	4,403	4.86%	65,795	3,195	4.86%	30,985	1,170	3.78%
<b>Securities</b>									
Federal funds sold	4,478	232	5.18%	11,000	545	4.95%	10,564	388	3.67%
Other	612	32	5.23%	844	44	5.21%	829	37	4.46%
<b>Total earning assets</b>	<b>434,096</b>	<b>33,399</b>	<b>7.69%</b>	<b>315,217</b>	<b>23,760</b>	<b>7.54%</b>	<b>231,565</b>	<b>15,692</b>	<b>6.78%</b>
Cash and due from banks	9,570			10,352			8,380		
Premises and equipment	15,553			8,561			8,478		
Other assets	9,158			9,158			6,507		
Allowance for loan losses	(4,160)			(2,848)			(2,017)		
<b>Total assets</b>	<b>\$464,217</b>			<b>\$340,440</b>			<b>\$252,913</b>		
<b>Liabilities</b>									
Interest-bearing liabilities	\$366,567	\$15,143	4.13%	\$262,165	\$ 9,377	3.58%	\$195,382	\$ 5,543	2.84%
Demand deposits (1)	61,565			55,639			38,766		
Other liabilities	2,691			2,282			1,487		
Shareholders' equity	33,394			20,354			17,278		
<b>Total liabilities and shareholders' equity</b>	<b>\$464,217</b>			<b>\$340,440</b>			<b>\$252,913</b>		
<b>Net interest spread</b>			<b>3.56%</b>			<b>3.96%</b>			<b>3.94%</b>
<b>Net yield on interest-earning Assets</b>		<b>\$18,256</b>	<b>4.21%</b>		<b>\$14,383</b>	<b>4.56%</b>		<b>\$10,149</b>	<b>4.38%</b>

(1) All loans and deposits were made to borrowers in the United States. The Company had no significant nonaccrual loans during the periods presented. Loans include held for sale loans.

(2) Includes loan fees of \$1,136, \$976, and \$755 respectively.

**Analysis of Changes in Net Interest Income** . The following table presents the consolidated dollar amount of changes in interest income and interest expense attributable to changes in volume and to changes in rate. The combined effect in both volume and rate which cannot be separately identified has been allocated proportionately to the change due to volume and due to rate.

#### Analysis of Changes in Consolidated Net Interest Income

	Year Ended December 31,			Year Ended December 31,		
	2007 versus 2006			2006 versus 2005		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
(Dollars in thousands)						
<b>Earning Assets</b>						
Loans.....	\$ 8,475	\$ 281	\$ 8,756	\$ 3,605	\$ 2,274	\$ 5,879
Securities.....	1,206	2	1,208	1,316	709	2,025
Federal funds sold .....	(323)	10	(313)	16	141	157
Other short-term investments ....	(12)	-	(12)	1	6	7
<b>Total interest income .....</b>	<b>9,346</b>	<b>293</b>	<b>9,639</b>	<b>4,938</b>	<b>3,130</b>	<b>8,068</b>
<b>Interest-Bearing Liabilities</b>						
Interest-bearing transaction accounts.....	660	716	1,376	507	44	551
Money market accounts.....	60	251	311	51	224	275
Savings deposits.....	50	22	72	129	80	209
Time deposits.....	2,397	1,266	3,663	1,300	1,224	2,524
Borrowed funds.....	549	(205)	344	118	156	274
<b>Total interest expense.....</b>	<b>3,716</b>	<b>2,050</b>	<b>5,766</b>	<b>2,105</b>	<b>1,728</b>	<b>3,833</b>

Net interest income.....	\$ 5,630	\$(1,757)	\$ 3,873	\$ 2,833	\$ 1,402	\$ 4,235
	=====	=====	=====	=====	=====	=====

*Interest Sensitivity* . The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. A monitoring technique employed by the Company is the measurement of the Company's interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. The Company also performs asset/liability modeling to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. The Company evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and repricing, funding sources and pricing, and off-balance sheet commitments in order to decrease interest rate sensitivity risk.

The following tables illustrate the Company's consolidated interest rate sensitivity and consolidated cumulative gap position at December 31, 2005, 2006, and 2007.

December 31, 2005					
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
	-----	-----	----	-----	-----
(Dollars in thousands)					
<b>Assets</b>					
Earning Assets:					
Loans.....	81,679	29,211	110,890	\$ 89,419	\$ 200,309
Securities (2).....	9,110	5,650	14,760	35,750	50,510
Funds sold and other.....	16,639	105	16,744	-	16,744
	-----	-----	-----	-----	-----
Total earning assets.....	107,428	34,966	142,394	125,169	267,563
	-----	-----	-----	-----	-----
<b>Liabilities</b>					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1).....	\$ -	\$ 29,160	\$ 29,160	\$ -	\$ 29,160
Money market accounts.....	33,122	-	33,122	-	33,122
Savings deposits (1) .....	-	17,786	17,786	-	17,786
Time deposits.....	11,832	74,169	86,001	26,295	112,296
	-----	-----	-----	-----	-----
Total interest-bearing deposits.	44,954	121,115	166,069	26,295	192,364
Borrowed funds.....	-	3,999	3,999	21,466	25,465
	-----	-----	-----	-----	-----
Total interest-bearing liabilities	44,954	125,114	170,068	47,761	217,829
	-----	-----	-----	-----	-----
Interest-sensitivity gap per period...	\$ 62,474	\$(90,148)	\$(27,674)	\$ 77,408	\$ 49,734
	=====	=====	=====	=====	=====
Cumulative gap at December 31, 2005....	\$ 62,474	\$(27,674)	\$(27,674)	\$ 49,734	\$ 49,734
	=====	=====	=====	=====	=====
Ratio of cumulative gap to total earning assets at December 31, 2005..	23.3%	(10.3%)	(10.3%)	18.6%	

December 31, 2006					
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
	-----	-----	----	-----	-----
(Dollars in thousands)					
<b>Assets</b>					
Earning Assets:					
Loans.....	\$ 99,026	\$ 46,459	\$ 145,485	\$ 142,390	\$ 287,875
Securities (2).....	6,203	9,954	16,157	75,653	91,810
Funds sold and other.....	9,225	219	9,444	-	9,444
	-----	-----	-----	-----	-----
Total earning assets.....	114,454	56,632	171,086	218,043	389,129
	-----	-----	-----	-----	-----
<b>Liabilities</b>					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1).....	\$ -	\$ 61,673	\$ 61,673	\$ -	\$ 61,673
Money market accounts.....	35,592	-	35,592	-	35,592
Savings deposits (1) .....	-	20,621	20,621	-	20,621
Time deposits.....	22,242	122,933	145,175	30,009	175,184
	-----	-----	-----	-----	-----
Total interest-bearing deposits.	57,834	205,227	263,061	30,009	293,070
Borrowed funds.....	750	4,153	4,903	15,924	20,827
	-----	-----	-----	-----	-----
Total interest-bearing liabilities....	58,584	209,380	267,964	45,933	313,897
	-----	-----	-----	-----	-----



Interest-sensitivity gap per period...	\$ 55,870	\$ (152,748)	\$ (96,878)	\$ 172,010	\$ 75,132
	=====	=====	=====	=====	=====
Cumulative gap at December 31, 2006...	\$ 55,870	\$ (96,878)	\$ (96,878)	\$ 75,132	\$ 75,132
	=====	=====	=====	=====	=====
Ratio of cumulative gap to total earning assets at December 31, 2006 .....	14.4%	(24.9%)	(24.9%)	19.3%	

December 31, 2006					
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
	-----	-----	-----	-----	-----
(Dollars in thousands)					
<b>Assets</b>					
Earning Assets:					
Loans.....	\$140,579	\$ 59,868	\$ 200,447	\$ 170,776	\$ 371,223
Securities (2).....	8,011	6,721	14,732	72,320	87,052
Funds sold and other.....	223	228	451	-	451
	-----	-----	-----	-----	-----
Total earning assets.....	148,813	66,817	215,630	243,096	458,726
	-----	-----	-----	-----	-----
<b>Liabilities</b>					
Interest-bearing liabilities					
Interest-bearing deposits					
NOW accounts (1).....	\$ -	\$ 73,398	\$ 73,398	\$ -	\$ 73,398
Money market accounts.....	38,820	-	38,820	-	38,820
Savings deposits (1) .....	-	20,934	20,934	-	20,934
Time deposits.....	58,049	123,616	181,665	16,002	197,667
	-----	-----	-----	-----	-----
Total interest-bearing deposits.	96,869	217,948	314,817	16,002	330,819
Borrowed funds (3).....	17,052	12,693	29,745	31,027	60,772
	-----	-----	-----	-----	-----
Total interest-bearing liabilities....	113,921	230,641	344,562	47,029	391,591
	-----	-----	-----	-----	-----
Interest-sensitivity gap per period...	\$ 34,892	\$(163,824)	\$(128,932)	\$196,067	\$ 67,135
	=====	=====	=====	=====	=====
Cumulative gap at December 31, 2007...	\$ 34,892	\$(128,932)	\$(128,932)	\$ 67,135	\$ 67,135
	=====	=====	=====	=====	=====
Ratio of cumulative gap to total earning assets at December 31, 2007 .....	7.6%	(28.1%)	(28.1%)	14.6%	

- (1) NOW and savings accounts are subject to immediate withdrawal and repricing. These deposits do not tend to immediately react to changes in interest rates and the Company believes these deposits are a stable and predictable funding source. Therefore, these deposits are included in the repricing period that management believes most closely matches the periods in which they are likely to reprice rather than the period in which the funds can be withdrawn contractually.
- (2) Securities include mortgage backed and other installment paying obligations based upon stated maturity dates.
- (3) Does not include subordinated debentures of \$10,310,000.

The Company generally would benefit from increasing market rates of interest when it has an asset-sensitive gap and generally from decreasing market rates of interest when it is liability sensitive. The Company currently is liability sensitive within the one-year time frame. However, the Company's gap analysis is not a precise indicator of its interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Accordingly, management believes a liability sensitive-position within one year would not be as indicative of the Company's true interest sensitivity as it would be for an organization which depends to a greater extent on purchased funds to support earning assets. Net interest income is also affected by other significant factors, including changes in the volume and mix of earning assets and interest-bearing liabilities.

#### Provision and Allowance for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events which it believes to be reasonable, but which may not prove to be accurate, particularly given the Company's short operating history and rapid growth. 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.

Additions to the allowance for loan losses, which are reported as the provision for loan losses on the Company's consolidated statements of income, are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The allowance consists of two components: allocated and unallocated. The allocated portion of the allowance is based upon specific allocations to specific loans, including impaired loans, and upon historical loan loss experience of the bank and its peer group ratios. Due to minimal loss history in various sections of the loan loss portfolio, management has elected to integrate the loss experience of the bank's peer groups in determining an appropriate allowance based on the various loan types within the bank's loan portfolio.

The unallocated component reflects management's estimate of the probable inherent but undetected losses within the portfolio due to uncertainties about economic conditions, changes in collateral values and borrower financial condition, expansion into new markets,

as well as other risk factors that have not yet manifested themselves.

The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the allowance during a given period, and current and anticipated economic conditions.

At December 31, 2007 the consolidated allowance for loan losses amounted to \$4,221,000, or 1.14% of outstanding loans. At December 31, 2006, the allowance for loan losses amounted to \$3,793,000, which was 1.32% of outstanding loans at December 31, 2006. The Company's provision for loan losses was \$1,321,000 for the year ended December 31, 2007, compared to \$800,000 for the year ended December 31, 2006. In each year, the provision was made based on management's assessment of general loan loss risk and asset quality.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 owed. Impairment is measured on a loan by loan basis generally using the fair value of the collateral if the loan is collateral dependent. At December 31, 2007 and 2006, loans considered impaired were the same as nonaccrual loans as described in the following paragraph.

The Company discontinues accrual of interest on loans when management believes, after considering economic and business conditions and collection efforts, that a borrower's financial condition is such that the collection of interest is doubtful. Generally, the Company will place a delinquent loan in nonaccrual status when the loan becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. The Company had nonaccrual loans of \$2,429,000 and \$1,789,000 and no restructured or other nonperforming loans at December 31, 2007 and 2006, respectively. At December 31, 2007 the Company had loans in the principal amount of \$4,686,000 delinquent 30 to 89 days, and loans of approximately \$994,000 that were delinquent 90 days or more and still accruing. At December 31, 2006, the Company had loans in the principal amount of \$3,035,000 delinquent by 30 to 89 days, and loans of approximately \$118,000 that were delinquent by 90 days and still accruing.

A potential problem loan is one in which management has serious doubts about the borrower's future performance under the terms of the loan contract. These loans are current as to principal and interest and, accordingly, they are not included in nonperforming assets categories. The level of potential problem loans is one factor used in the determination of the adequacy of the allowance for loan losses. At December 31, 2007 and December 31, 2006, the subsidiary bank had potential problem loans of \$9,558,070 and \$7,691,231, respectively. This represents an increase of \$1,866,839 which is attributable to one specific loan relationship. As of March 14, 2008 problem loans decreased to \$8,165,867.

#### Consolidated Allowance For Loan Losses

	Years Ended December 31,				
	2007	2006	2005	2004	2003
Average loans outstanding.....	\$ 338,368	\$ 237,578	\$ 189,187	\$ 140,052	\$ 112,468
Loans outstanding at period end.....	\$ 371,223	\$ 287,875	\$ 200,310	164,374	\$ 115,242
Total nonperforming loans.....	2,429	1,789	283	361	197
Beginning balance of allowance.....	3,793	2,367	1,659	1,166	1,228
Loans charged-off.....	(950)	(186)	(303)	(291)	(603)
Total loans charged-off.....	(950)	(186)	(303)	(291)	(603)
Total recoveries.....	57	107	90	112	73
Net loans charged-off.....	(893)	(79)	(213)	(179)	(530)
Acquisition.....	-	705	-	-	-
Provision for loan losses.....	1,321	800	921	672	468
Balance at period end.....	\$ 4,221	\$ 3,793	\$ 2,367	\$ 1,659	\$ 1,166
Net charge-offs to average loans.....	.26%	.03%	.11%	.13%	.47%
Allowance as percent of total loans.....	1.14%	1.32%	1.18%	1.01%	1.01%
Nonperforming loans as a percentage of total loans	.65%	.62%	.14%	.22%	.17%
Allowance as a multiple of nonperforming loans...	1.7X	2.1X	8.4X	4.6X	5.9X

At December 31, 2007, the components of the allowance for loan losses consisted of the

	Allowance
	-----
	(In thousands)
Allocated:	
Impaired loans	\$ 1,052

Graded loans

3,169  
-----  
\$ 4,221  
=====

Graded loans are those loans or pools of loans assigned a grade by internal loan review.

#### Noninterest Income and Expense

*Noninterest Income* . The Company's primary source of noninterest income is service charges on deposit accounts. Other sources of noninterest income include bankcard fees, commissions on check sales, safe deposit box rent, wire transfer fees, official check fees and bank owned life insurance income.

Noninterest income increased by \$950,000 or 42.4% from \$2,239,000 for the year ended December 31, 2006, to \$3,189,000 for the year ended December 31, 2007. The deposit activity fees were \$1,878,000 for 2007 compared to \$1,318,000 for 2006. Other service charges increased by \$230,000 or 46.9% from \$490,000 for the year ended December 31, 2006, to \$720,000 for the year ended December 31, 2007.

Noninterest expense increased from \$11.1 million for the year ended December 31, 2006 to \$14.8 million for the year ended December 31, 2007. The Company experienced increases in most expense categories, which reflects the continued growth of the Company. The largest increase was in salary and employee benefits, which increased by \$2.3 million in 2007 as compared to 2006. This increase included normal merit increases in salaries as well as the employment of additional employees throughout 2007, as well as staffing a new location.

The following table sets forth the primary components of noninterest expense for the periods indicated:

#### Noninterest Expense

	Years ended December 31,		
	2007	2006	2005
	----	----	----
	(In thousands)		
Salaries and employee benefits.....	\$ 8,962	\$ 6,613	\$ 4,816
Occupancy.....	983	746	585
Equipment.....	1,008	858	768
Marketing and public relations.....	323	320	207
Data processing.....	89	199	150
Supplies and printing.....	402	311	194
Telephone.....	162	114	66
Correspondent services.....	106	102	72
Deposit and other insurance.....	283	144	149
Professional and consulting fees.....	506	407	287
Postage.....	181	128	108
ATM fees.....	204	110	77
Other.....	1,614	1,086	659
	-----	-----	-----
Total.....	\$14,823	\$ 11,138	\$ 8,138
	=====	=====	=====

#### Income Tax Expense

Income tax expense consists of two components. The first is the current tax expense which represents the expected income tax to be paid to taxing authorities. The Company also recognizes deferred tax for future deductible amounts resulting from differences in the financial statement and tax bases of assets and liabilities.

### Analysis of Financial Condition

#### Earning Assets

*Loans* . Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At December 31, 2007 and 2006, respectively, loans accounted for 80% and 74% of earning assets. Management attempts to control and counterbalance the inherent credit and liquidity risks associated with the higher loan yields without sacrificing asset quality to achieve its asset mix goals. Loans averaged \$338.4 million during 2007, as compared to \$237.6 million during 2006, and \$189.2 million during 2005, reflecting the substantial growth of the Company during the period.

The following table shows the composition of the loan portfolio by category:

#### Composition of Loan Portfolio

	December 31,					
	2007		2006		2005	
	Amount	Percent Of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Mortgage loans held for sale.....	\$ 5,664	1.5%	\$ 3,945	1.4%	\$ 3,319	1.7%
Commercial, financial and agricultural .....	46,633	12.6%	36,258	12.6%	30,576	15.3%
Real Estate:						

Mortgage-commercial.....	84,854	22.9%	63,698	22.2%	48,335	24.1%
Mortgage-residential.....	112,676	30.3%	94,840	32.9%	68,148	34.0%
Construction.....	100,634	27.1%	69,420	24.1%	37,660	18.8%
Consumer and other.....	20,762	5.6%	19,714	6.8%	12,271	6.1%
	-----	-----	-----	-----	-----	-----
Total loans.....	371,223	100%	287,875	100%	200,309	100.0%
	=====	=====	=====	=====	=====	=====
Allowance for loan losses.....	(4,221)		(3,793)		(2,367)	
	-----	-----	-----	-----	-----	-----
Net loans.....	\$ 367,002		\$284,082		\$197,942	
	=====	=====	=====	=====	=====	=====

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. The Company follows the common practice of financial institutions in the Company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes it will reduce the risk elements of its loan portfolio through strategies that diversify the lending mix.

Loans held for sale consist of mortgage loans originated by the bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

The following table sets forth the Company's commercial and construction real estate loans maturing within specified intervals at December 31, 2007.

#### Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

	December 31, 2006			
Type	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(Dollars in thousands)			
Commercial, financial and agricultural.....	\$ 24,844	\$ 20,543	\$ 1,246	\$ 46,633
Real estate - construction.....	100,634	-	-	100,634
	\$ 125,478	\$ 20,543	\$ 1,246	\$ 147,267
	=====	=====	=====	=====
Loans maturing after one year with:				
Fixed interest rates.....				\$ 18,112
Floating interest rates.....				3,677
				-----
				\$ 21,789
				=====

The information presented in the above table is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity.

**Investment Securities .** The investment securities portfolio is a significant component of the Company's total earning assets. Total securities averaged \$90.6 million in 2007, as compared to \$65.8 million in 2006 and \$31.0 million in 2005. This represents 20.9%, 20.9%, and 13.4% of the average earning assets for the years ended December 31, 2007, 2006, and 2005, respectively. At December 31, 2007, investment securities were \$87.1 million and represented 19.0% of earning assets. The Company attempts to maintain a portfolio of high quality, highly liquid investments with returns competitive with short term U.S. Treasury or agency obligations. This objective is particularly important as the Company continues to grow its loan portfolio. The Company primarily invests in securities of U.S. Government agencies, municipals, and corporate obligations with maturities up to five years.

The following table summarizes the book value of securities for the dates indicated.

Securities Portfolio			
	December 31,		
	2007	2006	2005
	----	----	----
	(In thousands)		
Available-for-sale			
U. S. Government agencies.....	\$ 58,080	\$ 69,453	\$ 39,904
States and municipal subdivisions.....	21,224	15,474	5,879
Corporate obligations.....	3,859	3,448	2,760
Mutual funds .....	1,156	1,105	-
	-----	-----	-----
Total available-for-sale.....	84,319	89,480	48,543
	-----	-----	-----
Held-to-maturity			
U.S. Government agencies.....	13	13	14
	-----	-----	-----
Total.....	\$ 84,332	\$ 89,493	\$ 48,557
	=====	=====	=====

The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2007.

**Investment Securities Maturity Distribution and Yields (1)**

December 31, 2007								
Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		
Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
Held-to-maturity:								
U.S. Government agencies (2).....	\$ -	-	\$ -	-	\$ -	-	\$ -	-
Available-for-sale:								
U.S. Government agencies (3).....	\$ 7,756	4.43%	\$24,473	4.62%	\$ 1,034	6.02%	\$ -	-
States and municipal subdivisions.	877	3.23%	7,152	3.63%	8,337	3.96%	4,858	4.32%
Corporate obligations and other...	-	-	957	6.55%	-	-	4,059	6.89%
Total investment securities								
available-for-sale.....	\$ 8,633		\$32,582		\$ 9,371		\$8,917	
	=====		=====		=====		=====	

(1) Investments with a call feature are shown as of the contractual maturity date.

(2) Excludes mortgage-backed securities totaling \$13 with a yield of 7.2%.

(3) Excludes mortgage-backed securities totaling \$24.8 million with a yield of 5.28% and mutual funds of \$1.2 million.

**Short-Term Investments .** Short-term investments, consisting of Federal Funds sold, averaged \$4.5 million in 2007, \$11.0 million in 2006, and \$10.6 million in 2005. At December 31, 2007, and December 31, 2006, short-term investments totaled \$223,000 and \$8,772,000 respectively. These funds are a primary source of the Company's liquidity and are generally invested in an earning capacity on an overnight basis.

**Deposits**

**Deposits .** Average total deposits increased \$84.9 million, or 42.8% in 2006. Average total deposits increased \$99.7 million, or 35.2% in 2007. At December 31, 2007, total deposits were \$386.2 million, compared to \$351.7 million a year earlier, an increase of 9.8%.

The following table sets forth the deposits of the Company by category for the period indicated.

Deposits						
December 31,						
	2007		2006		2005	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Noninterest-bearing accounts.....	\$ 55,349	14.3%	\$58,652	16.7%	\$49,585	20.5%
NOW accounts.....	73,398	19.0%	61,673	17.5%	29,160	12.0%
Money market accounts.....	38,820	10.2%	35,592	10.1%	33,122	13.7%
Savings accounts.....	20,934	5.4%	20,621	5.9%	17,786	7.4%
Time deposits less than \$100,000.....						
Time deposits of \$100,000 or over.....	93,213	24.1%	92,364	26.3%	61,907	25.6%
	104,454	27.0%	82,820	23.5%	50,389	20.8%
Total deposits.....	\$386,168	100%	\$351,722	100%	\$241,949	100%

The Company's loan-to-deposit ratio was 94.7% at December 31, 2007 and 80.7% at December 31, 2006. The loan-to-deposit ratio averaged 88% during 2007. Core deposits, which exclude time deposits of \$100,000 or more, provide a relatively stable funding source for the Company's loan portfolio and other earning assets. The Company's core deposits were \$281.7 million at December 31, 2007 and \$268.9 million at December 31, 2006. Management anticipates that a stable base of deposits will be the Company's primary source of funding to meet both its short-term and long-term liquidity needs in the future. The Company has purchased brokered deposits from time to time to help fund loan growth. Brokered deposits and jumbo certificates of deposit generally carry a higher interest rate than traditional core deposits. Further, brokered deposit customers typically do not have loan or other relationships with the Company. The Company has adopted a policy not to permit brokered deposits to represent more than 10% of all of the Company's deposits.

The maturity distribution of the Company's certificates of deposit of \$100,000 or more at December 31, 2007, is shown in the following table. The Company did not have any other time deposits of \$100,000 or more.

**Maturities of Certificates of Deposit**



**of \$100,000 or More**

	Within Three Months	After Three Through Twelve Months	After Twelve Months	Total
	-----	-----	-----	-----
December 31, 2007.....	\$ 35,119	\$ 63,602	\$ 5,733	\$ 104,454

**Borrowed Funds**

Borrowed funds consists of advances from the Federal Home Loan Bank of Dallas, federal funds purchased and reverse repurchase agreements. At December 31, 2007, advances from the FHLB totaled \$32.9 million compared to \$20.8 million at December 31, 2006. The advances are collateralized by a blanket lien on the first mortgage loans in the amount of the outstanding borrowings, FHLB capital stock, and amounts on deposit with the FHLB. Federal funds purchased totaled \$12.9 million at December 31, 2007 compared to none at December 31, 2006.

Reverse Repurchase Agreements consists of three \$5,000,000 agreements. These agreements are secured by securities with a fair value of \$16,451,000 at December 31, 2007. The maturity dates are from August 22, 2012 through September 26, 2017 with rates between 3.81% and 4.51%.

**Subordinated Debentures**

In 2002, the Company issued subordinated debentures of \$7,217,000 to The First Bancshares Statutory Trust I (the Trust). The Company is the sole owner of the equity of the Trust. The Trust issued \$7,000,000 of preferred securities to investors. The Company entered into this arrangement to provide funding for expected growth. These debentures were called on March 26, 2007.

In 2006, the Company issued subordinated debentures of \$4,124,000 to The First Bancshares, Inc. Statutory Trust 2 (Trust 2). The Company is the sole owner of the equity of the Trust 2. The Trust 2 issued \$4,000,000 of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 2. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2011 and mature in 2036. The Company entered into this arrangement to provide funding for expected growth.

In 2007, the Company issued subordinated debentures of \$6,186,000 to The First Bancshares, Inc. Statutory Trust 3 (Trust 3). The Company is the sole owner of the equity of the Trust 3. The Trust 3 issued \$6,000,000 of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 3. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2012 and mature in 2037. The Company entered into this arrangement to provide funding for expected growth.

**Capital**

Total shareholders' equity as of December 31, 2007, was \$36.3 million, an increase of \$3.9 million or approximately 12.1%, compared with shareholders' equity of \$32.4 million as of December 31, 2006.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain (loss) on available-for-sale securities, minus certain intangible assets. Tier 2 capital consists of the general reserve for loan losses subject to certain limitations. An institution's total risk-based capital for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The risk-based regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital.

Bank holding companies and banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 3%. All but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. The Company and the subsidiary bank exceeded their minimum regulatory capital ratios as of December 31, 2007 and 2006.

**Analysis of Capital**

Capital Ratios	Adequately Capitalized	Well Capitalized	The Company December 31,		The First December 31,	
	-----	-----	2007	2006	2007	2006
			----	----	----	----
Leverage.....	4.0%	5.0%	9.1%	10.3%	8.7%	7.9%
Risk-based capital:						
Tier 1.....	4.0%	6.0%	11.6%	13.7%	11.0%	10.6%
Total.....	8.0%	10.0%	12.7%	15.0%	12.1%	11.9%

**Ratios**

	2007	2006	2005
	----	----	----
Return on assets (net income divided by average total assets)	.82%	.97%	.75%
Return on equity (net income divided by average equity)	11.4%	16.3%	11.0%
Dividend payout ratio (dividends per			

share divided by net income per share)	41.0%	11.9%	12.3%
Equity to asset ratio (average equity divided by average total assets)	7.2%	6.0%	6.8%

#### Liquidity Management

Liquidity management involves monitoring the Company's sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Asset liquidity is provided by cash and assets which are readily marketable, which can be pledged, or which will mature in the near future. Liability liquidity is provided by access to core funding sources, principally the ability to generate customer deposits in the Company's market area.

The Company's Federal Funds sold position, which is typically its primary source of liquidity, averaged \$4.5 million during the year ended December 31, 2007 and totaled \$223,000 at December 31, 2007. Also, the Company has available advances from the Federal Home Loan Bank. Advances available are generally based upon the amount of qualified first mortgage loans which can be used for collateral. At December 31, 2007, advances available totaled approximately \$120.7 million of which \$52.9 million had been drawn, or used for letters of credit.

Management regularly reviews the liquidity position of the Company and has implemented internal policies which establish guidelines for sources of asset-based liquidity and limit the total amount of purchased funds used to support the balance sheet and funding from non-core sources.

#### Subprime Assets

The Bank does not engage in subprime lending activities targeted towards borrowers in high risk categories.

#### Accounting Matters

Information on new accounting matters is set forth in Footnote B to the Consolidated Financial Statements included at Item 8 in this report. This information is incorporated herein by reference.

#### Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the Company are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Company's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

---

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the  
Board of Directors and Stockholders  
The First Bancshares, Inc.  
Hattiesburg, Mississippi

We have audited the accompanying consolidated balance sheets of The First Bancshares, Inc., and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The First Bancshares, Inc., and subsidiary as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ T. E. LOTT & COMPANY

Columbus, Mississippi  
March 28, 2008

---

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2007 AND 2006**

<b>ASSETS</b>	2007	2006
Cash and due from banks	\$ 10,890,248	\$ 9,743,065
Interest-bearing deposits with banks	227,853	672,137
Federal funds sold	223,000	8,772,000
Total cash and cash equivalents	11,341,101	19,187,202
Held-to-maturity securities (fair value of \$13,130 in 2007 and \$13,539 in 2006)	12,932	13,363
Available-for-sale securities	84,319,208	89,480,015
Other securities	2,719,950	2,316,500
Total securities	87,052,090	91,809,878
Loans held for sale	5,663,813	3,944,818
Loans, net of allowance for loan losses of \$4,221,240 in 2007 and \$3,792,937 in 2006	361,337,973	280,137,343
Interest receivable	3,538,560	2,905,133
Premises and equipment	15,622,426	9,953,178
Cash surrender value of life insurance	5,461,938	5,247,889
Goodwill	702,213	782,420
Other assets	5,336,164	3,800,942
Total assets	\$ 496,056,278	\$ 417,768,803
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 55,349,239	\$ 58,651,631
Interest-bearing	330,818,605	293,070,049
Total deposits	386,167,844	351,721,680
Interest payable	1,284,550	1,021,194
Borrowed funds	60,772,520	20,827,427
Subordinated debentures	10,310,000	11,341,000
Other liabilities	1,240,705	492,697
Total liabilities	459,775,619	385,403,998
Stockholders' Equity:		
Preferred stock, par value \$1 per share, 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$1 per share: 10,000,000 shares authorized; 3,015,045 and 2,884,902 shares issued in 2007 and 2006, respectively	3,015,045	2,884,902
Additional paid-in capital	22,929,333	22,344,734
Retained earnings	10,306,336	7,629,275
Accumulated other comprehensive income (loss)	493,590	(30,461)
Treasury stock, at cost	(463,645)	(463,645)
Total stockholders' equity	36,280,659	32,364,805
Total liabilities and stockholders' equity	\$ 496,056,278	\$ 417,768,803

The accompanying notes are an integral part of these statements.

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

<b>INTEREST INCOME</b>	2007	2006
Interest and fees on loans	\$ 28,731,899	\$ 19,976,374
Interest and dividends on securities		
Taxable interest and dividends	3,669,168	2,932,262
Tax-exempt interest	734,373	262,469
Interest on federal funds sold	231,706	544,880
Interest on deposits in banks	32,218	43,557
Total interest income	33,399,364	23,759,542
<b>INTEREST EXPENSE</b>		
Interest on time deposits of \$100,000 or more	3,066,445	1,830,773
Interest on other deposits	9,942,972	5,755,611
Interest on borrowed funds	2,134,196	1,789,894
Total interest expense	15,143,613	9,376,278

Net interest income	18,255,751	14,383,264
Provision for loan losses	1,320,914	800,361
Net interest income after provision for loan losses	16,934,837	13,582,903
<b>OTHER INCOME</b>		
Service charges on deposit accounts	1,877,952	1,318,244
Other service charges and fees	720,461	490,421
Bank owned life insurance income	213,699	194,078
Other gains	198,682	224,315
Gain(loss) on other real estate	37,322	(39,993)
Other	141,019	52,129
Total other income	3,189,135	2,239,194
<b>OTHER EXPENSE</b>		
Salaries	7,550,615	5,507,187
Employee benefits	1,411,188	1,105,907
Occupancy	967,425	745,981
Furniture and equipment	917,197	858,205
Supplies and printing	402,125	311,111
Professional and consulting fees	505,908	407,004
Marketing and public relations	322,593	319,786
Data processing	206,772	198,798
Other	2,538,807	1,684,278
Total other expense	14,822,630	11,138,257
Income before income taxes	5,301,342	4,683,840
Income taxes	1,478,669	1,368,826
Net income	\$ 3,822,673	\$ 3,315,014
Net income per common share:		
Basic	\$ 1.28	\$ 1.35
Diluted	1.25	1.27

The accompanying notes are an integral part of these statements.

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	Compre- hensive Income	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2006		\$ 1,213,844	\$ 13,220,940	\$ 4,694,292	\$ (187,831)	\$ (463,645)	\$ 18,477,600
Comprehensive income:							
Net income 2006	\$3,315,014	-	-	3,315,014	-	-	3,315,014
Net change in unrealized gain on available- For-sale securities, Net of tax	157,370	-	-	-	157,370	-	157,370
Comprehensive Income	\$3,472,384						
Stock Sale		365,000	7,820,355	-	-	-	8,185,355
2 for 1 stock split		1,187,600	(1,187,600)	-	-	-	-
Exercise of stock Options		9,277	58,011	-	-	-	67,288
Adoption of SFAS 123R		-	9,211	-	-	-	9,211
Stock issued in acquisition		109,181	2,423,817	-	-	-	2,532,998
Cash dividend Declared, \$.16 per share		-	-	(380,031)	-	-	(380,031)
Balance, December 31, 2006		2,884,902	22,344,734	7,629,275	(30,461)	(463,645)	32,364,805
Comprehensive							

Income:						
Net income 2007	\$3,822,673	-	-	3,822,673	-	-
Net change in unrealized gain on available- For-sale securities, Net of tax	524,051	-	-	-	524,051	-
	-----					
Comprehensive Income	\$4,346,724					
	=====					
Exercise of stock Options	130,143	582,322	-	-	-	712,465
Stock option expense	-	2,277	-	-	-	2,277
Tax benefit on Options	-	-	418,543	-	-	418,543
Cash dividend Declared, \$.525 per share	-	-	(1,564,155)	-	-	(1,564,155)
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2007	\$ 3,015,045	\$ 22,929,333	\$ 10,306,336	\$ 493,590	\$ (463,645)	\$ 36,280,659
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,822,673	\$ 3,315,014
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	978,964	676,074
Stock option expense	2,277	9,211
FHLB Stock dividends	(75,600)	(72,800)
Provision for loan losses	1,320,914	800,361
Deferred income taxes	210,766	20,186
Increase in cash value of life insurance	(214,049)	(193,728)
Securities, amortization and accretion, net	75,958	127,940
Other gains	(198,682)	(224,315)
(Gain)loss on other real estate	(37,322)	39,993
Changes in:		
Loans held for sale	(1,718,995)	(625,825)
Interest receivable	(633,427)	(782,616)
Other assets	(477,809)	(510,874)
Interest payable	263,356	455,273
Other liabilities	748,008	(425,738)
	-----	-----
Net cash provided by operating activities	4,067,032	2,608,156
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received in excess of cash paid for acquisition	-	1,833,291
Purchases of available-for-sale securities	(24,340,284)	(47,441,689)
Purchases of other securities	(1,239,250)	(444,350)
Proceeds from maturities and calls of available-for-sale securities	29,906,029	28,102,155
Proceeds from sales of securities available-for-sale	-	2,457,620
Proceeds from redemption of other securities	911,400	303,350
Proceeds from sale of lease/land	352,669	532,755
Proceeds from sale of other real estate	96,511	492,670
Increase in loans	(83,940,396)	(69,404,210)
Additions to premises and equipment	(6,586,922)	(1,672,841)
	-----	-----
Net cash used in investing activities	(84,840,243)	(85,241,249)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits	34,446,164	65,573,596
Proceeds from borrowed funds	44,875,000	10,000,000
Repayment of borrowed funds	(4,929,907)	(14,637,845)
Exercise of stock options	712,465	67,288
Dividends paid on common stock	(1,564,155)	(380,031)
Issuance of subordinated debentures	6,186,000	4,124,000
Repayment of subordinated debentures	(7,217,000)	-
Tax benefit on non-incentive stock options	418,543	-
Issuance of common stock	-	8,185,355
	-----	-----
Net cash provided by financing activities	72,927,110	72,932,363
	-----	-----



The accompanying notes are an integral part of these statements.

---

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
	-----	-----
Net increase (decrease) in cash and cash equivalents	(7,846,101)	(9,700,730)
Cash and cash equivalents at beginning of year	19,187,202	28,887,932
	-----	-----
Cash and cash equivalents at end of year	\$ 11,341,101	\$ 19,187,202
	=====	=====
<b>Cash paid during the year for:</b>		
Interest	\$ 14,880,257	\$ 8,807,553
Income taxes	1,907,080	2,457,655
<b>Non-cash activities:</b>		
Transfers of loans to other real estate	1,542,644	739,030
Issuance of stock in acquisition	-	2,532,998

The accompanying notes are an integral part of these statements.

---

**THE FIRST BANCSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A - NATURE OF BUSINESS**

The First Bancshares, Inc. (the Company) is a financial holding company whose business is primarily conducted by its wholly-owned subsidiary, The First, A National Banking Association (the Bank). The Bank provides a full range of banking services in its primary market area of South Mississippi. The Company, as a financial holding company, is regulated by the Federal Reserve Bank. Its subsidiary bank is subject to the regulation of the Office of the Comptroller of the Currency (OCC).

**NOTE B - SUMMARY OF ACCOUNTING POLICIES**

The Company and its subsidiary follow accounting principles generally accepted in the United States of America including, where applicable, general practices within the banking industry.

**1. Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

**2. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the 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 allowance for loan losses and the valuation of deferred tax assets.

**3. Cash and Due From Banks**

Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve. The reserve balance varies depending upon the types and amounts of deposits. At December 31, 2007, the required reserve balance on deposit with the Federal Reserve Bank was approximately \$25,000.

**4. Securities**

Investments in securities are accounted for as follows:

**Available-for-Sale Securities**

Securities classified as available-for-sale are those securities that are intended to be held for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including movements in interest rates, liquidity needs, security risk assessments, changes in the mix of assets and liabilities and other similar factors. These securities are carried at their estimated fair value, and the net unrealized gain or loss is reported in stockholders' equity, net of tax, until realized. Premiums and discounts are recognized in interest income using the interest method. Gains and losses on the sale of available-for-sale securities are determined using the adjusted cost of the specific security sold.

---

**Securities to be Held-to-Maturity**

Securities classified as held-to-maturity are those securities for which there is a positive intent and ability to hold to

maturity. These securities are carried at cost adjusted for amortization of premiums and accretion of discounts, computed by the interest method.

#### *Trading Account Securities*

Trading account securities are those securities which are held for the purpose of selling them at a profit. There were no trading account securities on hand at December 31, 2007 and 2006.

#### *Other Securities*

Other securities are carried at cost and are restricted in marketability. Other securities consist of investments in the Federal Home Loan Bank (FHLB), Federal Reserve Bank and First National Bankers' Bankshares, Inc.

### **5. Loans held for sale**

The Company originates fixed rate single family, residential first mortgage loans on a presold basis. The Company issues a rate lock commitment to a customer and concurrently "locks in" with a secondary market investor under a best efforts delivery mechanism. Such loans are sold without the servicing retained by the Company. The terms of the loan are dictated by the secondary investors and are transferred within several weeks of the Company initially funding the loan. The Company recognizes certain origination fees and service release fees upon the sale which are included in interest and fees on loans in the consolidated statements of income. Between the initial funding of the loans by the Company and the subsequent purchase by the investor, the Company carries the loans held for sale at the lower of cost or fair value in the aggregate as determined by the outstanding commitments from investors.

### **6. Loans**

Loans are carried at the principal amount outstanding, net of the allowance for loan losses. Interest income on loans is recognized based on the principal balance outstanding and the stated rate of the loan. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the related loan yield using the interest method.

A loan is considered impaired when, based upon current events and information, it is probable that the scheduled payments of principal or interest will not be collected in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral values, and the probability of collecting scheduled payments of principal and interest when due. Generally, impairment is measured on a loan by loan basis using the fair value of the supporting collateral.

Loans are generally placed on a nonaccrual status when principal or interest is past due ninety days or when specifically determined to be impaired. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. If collectibility is in doubt, cash receipts on nonaccrual loans are used to reduce principal rather than recorded in interest income. Past due status is determined based upon contractual terms.

---

### **7. Allowance for Loan Losses**

For financial reporting purposes, the provision for loan losses charged to operations is based upon management's estimations of the amount necessary to maintain the allowance at an adequate level. Allowances for any impaired loans are generally determined based on collateral values. Loans are charged against the allowance for loan losses when management believes the collectibility of the principal is unlikely.

Management evaluates the adequacy of the allowance for loan losses on a regular basis. These evaluations are based upon a periodic review of the collectibility considering historical experience, the nature and value of the loan portfolio, underlying collateral values, internal and independent loan reviews, and prevailing economic conditions. In addition, the OCC, as a part of the regulatory examination process, reviews the loan portfolio and the allowance for loan losses and may require changes in the allowance based upon information available at the time of the examination. The allowance consists of two components: allocated and unallocated. The components represent an estimation done pursuant to either Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*, or FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. The allocated component of the allowance reflects expected losses resulting from an analysis developed through specific credit allocations for individual loans, including any impaired loans, and historical loan loss history. The analysis is performed quarterly, and loss factors are updated regularly.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, changes in collateral values, unfavorable information about a borrower's financial condition, and other risk factors that have not yet manifested themselves. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in the loan loss analysis.

### **8. Premises and Equipment**

Premises and equipment are stated at cost, less accumulated depreciation. The depreciation policy is to provide for depreciation over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance expenditures are charged to operating expenses; major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any gains or losses are included in operations.

### **9. Other Real Estate**

Other real estate consists of properties acquired through foreclosure and, as held for sale property, is recorded at the lower of the outstanding loan balance or current appraisal less estimated costs to sell. Any write-down to fair value required at the time of foreclosure is charged to the allowance for loan losses. Subsequent gains or losses on other real estate are reported in other operating income or expenses. At December 31, 2007 and 2006, other real estate totaled \$1,758,968 and \$557,089, respectively.

---

### **10. Goodwill and Intangible Assets**

The following table summarizes the changes in goodwill and core deposit intangible asset for the year ended December 31, 2007.

(Dollars in thousands)	Goodwill	Core deposit intangible
	-----	-----
Balance, January 1, 2007	\$ 782	\$ 676
Adjustments	(80)	-
Amortization	-	70
	-----	-----
Balance, December 31, 2007	\$ 702	\$ 606
	=====	=====

Acquired goodwill and core deposit intangible are related to the acquisition of First National Bank of Wiggins on October 1, 2006. Adjustments to goodwill were the result of the finalization of values subsequent to January 1, 2007.

The following table presents the forecasted core deposit intangible asset amortization expense for 2008 through 2012.

(Dollars in thousands)	Full year expected Amortization
Year	-----
-----	-----
2008	\$69
2009	\$69
2010	\$69
2011	\$69
2012	\$69

#### 11. Other Assets and Cash Surrender Value

Financing costs related to the issuance of junior subordinated debentures are being amortized over the life of the instruments and are included in other assets. The Company invests in bank owned life insurance (BOLI). BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner of the policies and, accordingly, the cash surrender value of the policies are reported as an asset, and increases in cash surrender values are reported as income.

#### 12. Stock Options

Prior to January 1, 2006, the Company's stock option plans were accounted for under the recognition and measurement provisions of APB Opinion No. 25 (Opinion 25), *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* (as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*) (collectively SFAS 123). No stock-based employee compensation cost was recognized in the Company's consolidated statements of earnings through December 31, 2005, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123 (R), *Share-Based Payment* (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

As of December 31, 2007, only 2,308 stock options were not fully vested and no stock options were granted during the twelve months ended December 31, 2007.

#### 13. Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes related primarily to differences between the bases of assets and liabilities as measured by income tax laws and their bases as reported in the financial statements. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The Company and its subsidiary file consolidated income tax returns. The subsidiary provides for income taxes on a separate return basis and remits to the Company amounts determined to be payable.

Effective January 1, 2007, the Company adopted *Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (the Interpretation). This Interpretation provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. The initial adoption of this Interpretation had no impact on the consolidated financial statements.

#### 14. Advertising Costs

Advertising costs are expensed in the period in which they are incurred. Advertising expense for the years ended December 31, 2007 and 2006, was approximately \$221,616 and \$263,644, respectively.

#### 15. Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks, interest-bearing deposits with banks and federal funds sold. Generally, federal funds are sold for a one to seven day period.

#### 16. Off-Balance Sheet Financial Instruments

In the ordinary course of business, the subsidiary bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, credit card lines and standby letters of credit. Such financial instruments are recorded in the financial statements when they are exercised.

#### 17. Per Share Amounts

Per share amounts are presented in accordance with FASB Statement No. 128, *Earnings Per Share* . Under Statement No. 128, two per share amounts are considered and presented, if applicable. 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.

The following table discloses the reconciliation of the numerators and denominators of the basic and diluted computations:

	For the Year Ended December 31, 2007			For the Year Ended December 31, 2006		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic per share	\$3,822,673	2,980,566	\$ 1.28 =====	\$ 3,315,014	2,450,988	\$ 1.35 =====
Effect of dilutive Shares:						
Stock options		81,089 -----			158,156 -----	
	\$3,822,673 =====	3,061,655 =====	\$ .25 =====	\$ 3,315,014 =====	2,609,144 =====	\$ 1.27 =====

The diluted per share amounts were computed by applying the treasury stock method.

#### 18. Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform with the

classifications used in 2007. These reclassifications did not impact the Company's consolidated financial condition or results of operations.

#### 19. Accounting Pronouncements

In September 2006, the FASB issued *SFAS No. 157, "Fair Value Measurements"* . This Statement defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. This Statement is effective for years beginning after December 15, 2007. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

*SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115."* SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Corporation's financial statements.

*Emerging Issues Task Force ("EITF") Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements"* EITF 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the

future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in *SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions."* The Company expects to adopt EITF 06-4 effective as of January 1, 2008 as a change in accounting principle through a cumulative-effect adjustment to retained earnings. The amount of the adjustment is not expected to be significant.

#### NOTE C – ACQUISITION

On October 1, 2006, the Company completed a merger transaction in which it acquired First National Bank of Wiggins ("Wiggins"), headquartered in Wiggins, Mississippi. This acquisition was consistent with the Company's strategy of expanding its operations and market share in Mississippi. The results of operations of Wiggins have been included in the Company's consolidated financial statements since the acquisition date.

The aggregate purchase price for the acquisition was \$5.0 million which included cash of \$2.1 million, direct merger costs of \$.4 million, and approximately 109,000 shares of common stock with an aggregate fair value of \$2.5 million. The aggregate value of the common stock was calculated for this purpose using a \$23.20 per share value based on the closing price of First Bancshares stock on the acquisition announcement date.

The transaction was accounted for under the purchase method of accounting, with Wiggins' assets and liabilities being recorded at their estimated fair values. Wiggins' allowance for loan losses was recorded at the carrying value and contained no specific reserves. The purchase price in excess of the net fair value of the assets and liabilities acquired was recorded as goodwill. The amount of goodwill recorded was \$.7 million. The goodwill is not tax deductible for federal income tax purposes.

The following table summarizes the preliminary estimated fair value of assets and liabilities purchased at the date of acquisition.

(Dollars in thousands)

-----

Assets acquired:	
Cash and cash equivalents	\$ 4,268
Investment securities	23,981
Loans, net	17,649
Premises and equipment, net	832
Core deposit intangible	693
Goodwill	702
Other assets, net	1,121
	-----
Total assets acquired	\$ 49,246
	=====
Liabilities assumed:	
Deposits	\$ 44,199
Other liabilities	203
	-----
Total liabilities assumed	\$ 44,402
	-----
Net assets purchased	\$ 4,844
	=====

The Company is amortizing the resulting core deposit intangible of \$693,000 using the straight-line method over ten years.

The following unaudited summary information presents the consolidated results of operations of the Company on a pro forma basis for the year ended December 31, 2006 as if the First National Bank of Wiggins had been acquired on January 1, 2006.

Year Ended December 31, 2006	
Interest income	\$ 25,888
Interest expense	10,180
Net income	2,721
Net income per share:	
Basic	\$ 1.07
Diluted	1.01

#### NOTE D - SECURITIES

A summary of the amortized cost and estimated fair value of available-for-sale securities and held-to-maturity securities at December 31, 2007 and 2006, follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Available-for-sale securities:</i>				
Obligations of U.S. Government				
Agencies	\$32,774,364	\$ 491,294	\$ 3,007	\$33,262,651
Tax-exempt and taxable obligations of states and municipal subdivisions	21,148,995	218,846	144,021	21,223,820
Mortgage-backed securities	24,597,996	230,483	11,424	24,817,055
Corporate obligations	3,891,491	8,972	40,993	3,859,470
Other	1,158,492	-	2,280	1,156,212
	-----	-----	-----	-----
	\$83,571,338	\$ 949,595	\$ 201,725	\$84,319,208
	=====	=====	=====	=====
<i>Held-to-maturity securities:</i>				
Mortgage-backed securities	\$ 12,932	\$ 198	\$ -	\$ 13,130
	=====	=====	=====	=====

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Available-for-sale securities:</i>				
Obligations of U.S. Government				
Agencies	\$45,766,878	\$ 53,137	\$ 198,001	\$45,622,014
Tax-exempt and taxable obligations of states and municipal subdivisions	15,393,960	132,295	52,420	15,473,835
Mortgage-backed securities	23,809,129	88,553	66,127	23,831,555
Corporate obligations	3,451,390	490	4,072	3,447,808
Other	1,104,803	-	-	1,104,803
	-----	-----	-----	-----
	\$89,526,160	\$ 274,475	\$ 320,620	\$89,480,015
	=====	=====	=====	=====
<i>Held-to-maturity securities:</i>				
Mortgage-backed securities	\$ 13,363	\$ 176	\$ -	\$ 13,539
	=====	=====	=====	=====

The scheduled maturities of securities at December 31, 2007, were as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due less than one year	\$ 8,624,347	\$ 8,633,164	\$ -	\$ -
Due after one year through five years	32,079,268	32,582,068	-	-
Due after five years through ten years	9,306,833	9,370,053	-	-
Due after ten years	8,962,894	8,916,868	-	-
Mortgage-backed securities	24,597,996	24,817,055	12,932	13,130
	\$ 83,571,338	\$84,319,208	\$ 12,932	\$ 13,130
	=====	=====	=====	=====

Actual maturities can differ from contractual maturities because the obligations may be called or prepaid with or without penalties.

No gains or losses were realized on available-for-sale securities in 2007 or 2006.

Securities with a carrying value of \$49,721,719 and \$39,773,897 at December 31, 2007 and 2006, respectively, were pledged to secure public deposits, repurchase agreements, and for other purposes as required or permitted by law.

The details concerning securities classified as available-for-sale with unrealized losses as of December 31, 2007 and 2006, were as follows:

	2007					
	Losses < 12 Months		Losses 12 Months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government agencies	\$ 499,530	\$ 107	\$3,246,800	\$ 2,900	\$3,746,330	\$ 3,007
Tax-exempt and tax- able obligations of states and municipal subdivisions	3,276,146	96,615	4,508,389	47,406	7,784,535	144,021
Mortgage-backed Securities	1,414,177	2,200	1,094,802	9,224	2,508,979	11,424
Corporate obligations	1,317,201	40,993	-	-	1,317,201	40,993
Other	1,156,212	2,280	-	-	1,156,212	2,280
	\$7,663,266	\$ 142,195	\$8,849,991	\$ 59,530	\$16,513,257	\$ 201,725
	=====	=====	=====	=====	=====	=====

	2006					
	Losses < 12 Months		Losses 12 Months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government agencies	\$12,516,448	\$ 35,403	\$13,356,106	\$ 162,598	\$25,872,554	\$ 198,001
Tax-exempt and tax- able obligations of states and municipal subdivisions	4,801,648	25,135	2,122,409	27,285	6,924,057	52,420
Mortgage-backed Securities	4,097,314	11,463	3,299,976	54,664	7,397,290	66,127
	1,303,272	4,072	-	-	1,303,272	4,072
	\$22,718,682	\$ 76,073	\$18,778,491	\$ 244,547	\$41,497,173	\$ 320,620
	=====	=====	=====	=====	=====	=====

Approximately 28.8% of the number of securities in the investment portfolio at December 31, 2007 reflected an unrealized loss. Management is of the opinion the Company has the ability to hold these securities until such time as the value recovers or the

securities mature. Management also believes the deterioration in value is attributable to changes in market interest rates and not to the credit quality of the issuer.

#### NOTE E - LOANS

Loans outstanding included the following types at December 31, 2007 and 2006:

	2007	2006
	-----	-----
(In thousands)		
Commercial, financial and agricultural	\$ 46,633	\$ 36,258
Real estate - construction	100,634	69,420
Real estate - mortgage	197,530	158,538
Installment loans to individuals	20,391	19,525
Overdrafts	371	189
	-----	-----
	365,559	283,930
	(4,221)	(3,793)
	-----	-----
Allowance for loan losses	\$ 361,338	\$ 280,137
	=====	=====

Transactions in the allowance for loan losses for the years ended December 31, 2007 and 2006, were as follows:

	2007	2006
	-----	-----
Balance at beginning of year	\$ 3,792,937	\$ 2,366,773
Additions:		
First National Bank of Wiggins acquisition	-	704,707
Provision for loan losses charged to operations	1,320,914	800,361
Recoveries	57,222	107,386
	-----	-----
	5,171,073	3,979,227
Deductions:		
Loans charged off	949,833	186,290
	-----	-----
Balance at end of year	\$ 4,221,240	\$ 3,792,937
	=====	=====

As of December 31, 2007 and 2006, impaired loans totaled \$2,429,000 and \$1,789,000, respectively. As of December 31, 2007 and 2006, \$1,052,000 and \$75,000, respectively of the allowance for loan losses was allocated to impaired loans.

At December 31, 2007 and 2006, the Company had nonaccrual loans and loans past due 90 days or more as follows:

	2007	2006
	-----	-----
(In thousands)		
Nonaccrual loans	\$ 2,429	\$ 1,789
Past due 90 days or more and still accruing	994	118

#### NOTE F - PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation and amortization as follows:

	2007	2006
	-----	-----
Premises:		
Land	\$ 4,605,270	\$ 3,205,280
Buildings and improvements	7,471,558	6,462,212
Equipment	4,936,037	4,287,101
Construction in progress	3,291,769	18,529
	-----	-----
	20,304,634	13,973,122
	(4,682,208)	(4,019,944)
	-----	-----
Less accumulated depreciation and amortization	\$15,622,426	\$ 9,953,178
	=====	=====

The amounts charged to operating expense for depreciation were \$763,687 and \$573,471 in 2007 and 2006, respectively.



**NOTE G - DEPOSITS**

The aggregate amount of time deposits in denominations of \$100,000 or more as of December 31, 2007, and 2006 was \$104,453,577 and \$82,820,395, respectively.

At December 31, 2007, the scheduled maturities of time deposits included in interest-bearing deposits were as follows (in thousands):

Year	Amount
----	-----
2008	\$181,720
2009	8,226
2010	4,699
2011	1,250
2012	1,772
	-----
	\$197,667
	=====

**NOTE H - BORROWED FUNDS**

Borrowed funds consisted of the following:

	December 31,	
	2007	2006
	-----	-----
Reverse Repurchase Agreement	\$15,000,000	-
Federal Funds Purchased	12,875,000	-
FHLB advances	32,897,520	20,827,427
	-----	-----
	\$60,772,520	\$20,827,427
	=====	=====

Advances from the FHLB have maturity dates ranging from January, 2008 through June, 2013. Interest is payable monthly at rates ranging from 2.651% to 5.920%. Advances due to the FHLB are collateralized by a blanket lien on first mortgage loans in the amount of the outstanding borrowings, FHLB capital stock, and amounts on deposit with the FHLB. At December 31, 2007, FHLB advances available and unused totaled \$67.8 million.

Future annual principal repayment requirements on the borrowings from the FHLB at December 31, 2007, were as follows:

Year	Amount
----	-----
2008	\$ 16,870,246
2009	7,990,192
2010	7,430,185
2011	75,064
2012	261,060
Thereafter	270,773
	-----
	\$ 32,897,520
	=====

Reverse Repurchase Agreements consists of three \$5,000,000 agreements. The agreements are secured by securities with a fair value of \$16,451,000 at December 31, 2007. The maturity dates are from August 22, 2012 through September 26, 2017 with rates between 3.81% and 4.51%.

**NOTE I - REGULATORY MATTERS**

The Company and its subsidiary bank are subject to regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiary bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgment by regulators about components, risk weightings, and other related factors.

To ensure capital adequacy, quantitative measures have been established by regulators, and these require the Company and its subsidiary bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital to adjusted total assets (leverage). Management believes, as of December 31, 2007, that the Company and its subsidiary bank exceed all capital adequacy requirements.

At December 31, 2007 and 2006, the subsidiary bank was categorized by regulators as well-capitalized under the regulatory framework for prompt corrective action. A financial institution is considered to be well-capitalized if it has a total risk-based capital ratio of 10% or more, has a Tier I risk-based capital ratio of 6% or more, and has a Tier I leverage capital ratio of 5% or more.

There are no conditions or anticipated events that, in the opinion of management, would change the categorization.

The actual capital amounts and ratios at December 31, 2007 and 2006, are presented in the following table. No amount was deducted from capital for interest-rate risk exposure.

	Company (Consolidated)		Subsidiary The First	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2007</b>				
Total risk-based	\$49,051	12.7%	\$46,684	12.1%
Tier I risk-based	44,830	11.6%	42,463	11.0%
Tier I leverage	44,830	9.1%	42,463	8.7%
<b>December 31, 2006</b>				
Total risk-based	\$45,627	15.0%	\$36,027	11.9%
Tier I risk-based	41,834	13.7%	32,234	10.6%
Tier I leverage	41,834	10.3%	32,234	7.9%

The minimum amounts of capital and ratios as established by banking regulators at December 31, 2007 and 2006, were as follows:

	Company (Consolidated)		Subsidiary The First	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2007</b>				
Total risk-based	\$30,860	8.0%	\$30,771	8.0%
Tier I risk-based	15,430	4.0%	15,385	4.0%
Tier I leverage	19,598	4.0%	19,554	4.0%
<b>December 31, 2006</b>				
Total risk-based	\$24,473	8.0%	\$24,372	8.0%
Tier I risk-based	12,236	4.0%	12,185	4.0%
Tier I leverage	16,287	4.0%	16,237	4.0%

The Company's dividends, if any, are expected to be made from dividends received from its subsidiary bank. The OCC limits dividends of a national bank in any calendar year to the net profits of that year combined with the retained net profits for the two preceding years.

#### NOTE J - COMPREHENSIVE INCOME

The Company and its subsidiary bank report comprehensive income as required by FASB Statement No. 130, *Reporting Comprehensive Income*. In accordance with this statement, unrealized gains and losses on securities available-for-sale are included in other comprehensive income.

In the calculation of comprehensive income, certain reclassification adjustments are made to avoid double counting amounts that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income. The disclosure of the reclassification amounts is as follows:

	Years Ended December 31,	
	2007	2006
Unrealized holdings gains (losses) on available-for-sale securities	\$794,016	\$ 238,439
Reclassification adjustment for (gains) losses realized in income	-	-
Net unrealized gains (losses)	794,016	238,439
Tax effect	(269,965)	(81,069)
Net unrealized gains (losses), net of tax	\$524,051	\$ 157,370
	=====	=====

#### NOTE K - INCOME TAXES

The components of income tax expense are as follows:

	December 31,	
	2007	2006
Current:		
Federal	\$1,560,595	\$1,243,198
State	128,840	145,814
Deferred	(210,766)	(20,186)

-----	-----
\$1,478,669	\$1,368,826
=====	=====

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,			
	2007		2006	
	Amount	%	Amount	%
Income taxes at statutory rate	\$1,802,456	34%	\$ 1,592,506	34%
Tax-exempt income	(323,197)	(6)%	(155,459)	(3)%
State income tax, net of federal				
Tax effect	85,034	2%	96,237	2%
Tax credits	(139,850)	(3)%	(121,414)	(3)%
Other, net	54,226	1%	(43,044)	(1)%
	-----	-----	-----	-----
	\$1,478,669	28%	\$ 1,368,826	29%
	=====	=====	=====	=====

The components of deferred income taxes included in the consolidated financial statements were as follows:

	December 31,	
	2007	2006
Deferred tax assets:		
Allowance for loan losses	\$ 1,099,576	\$ 916,228
Unrealized loss on available-for-sale securities	-	15,690
Net operating loss carryover	1,040,746	990,688
Other	94,653	21,292
	-----	-----
	2,234,975	1,943,898
	-----	-----
Deferred tax liabilities:		
Securities	(112,799)	(92,719)
Unrealized gain on available-for-sale securities	(254,276)	-
Premises and equipment	(828,186)	(726,417)
Core deposit intangible	(226,178)	(252,027)
	-----	-----
	(1,421,439)	(1,071,163)
	-----	-----
Net deferred tax asset	\$ 813,536	\$ 872,735
	=====	=====

With the acquisition of Wiggins, the Company assumed a federal tax net operating loss carryover. This net operating loss is available to the Company through the year 2026.

#### NOTE L — EMPLOYEE BENEFITS

The Company and its subsidiary bank provide a deferred compensation arrangement (401(k) plan) whereby employees contribute a percentage of their compensation. For employee contributions of three percent or less, the Company and its subsidiary bank provide a matching contribution. Contributions totaled \$114,397 in 2007 and \$90,148 in 2006.

The Company sponsors an Employee Stock Ownership Plan (ESOP) for employees who have completed one year of service for the Company and attained age 21. Employees become fully vested after five years of service. Contributions to the plan are at the discretion of the Board of Directors. At December 31, 2007, the ESOP held 6,946 shares of Company common stock and had no debt obligation. All shares held by the plan were considered outstanding for net income per share purposes. Total ESOP expense was \$75,000 for 2007 and \$85,000 for 2006, respectively.

The Company and its subsidiary bank have employment agreements with certain executive officers. These agreements contain provisions concerning salaries, bonuses, incentive programs, and benefits related to a change in control.

#### NOTE M — STOCK PLANS

In 1997, the Company adopted the 1997 Stock Option Plan (1997 Plan) which provides for the granting of options to purchase up to 144,370 shares of Company common stock by directors and key employees of the Company and its subsidiary. Options granted under the 1997 Plan were exercisable at December 31, 1999, and expired ten years after the grant date. As of December 31, 2007, all shares had been exercised or forfeited. All options expired and were void unless exercised on or before March 18, 2007. The options were exercisable at not less than the market value of the Company's stock at the grant date.

On May 27, 1999, the Company's shareholders approved the 1999 Stock Incentive Plan (1999 Plan). The 1999 Plan provides for the granting of options to purchase up to 213,376 shares of the Company's common stock by the Company's and its subsidiary's directors, key employees, and management. Under the 1999 Plan, the Company may grant either incentive stock options or nonqualified stock options. Options granted to directors and employees vest in equal amounts over three years. Stock options granted to management

vest based on annual performance goals or after nine years and eleven months, if still employed. At December 31, 2007, 213,356 options had been granted, and 92,580 had been exercised or forfeited. All options expire and are void unless exercised on or before April 15, 2009. The options are exercisable at not less than the market value of the Company's stock at the grant date.

A summary of the status of the stock option plans as of December 31, 2007 and 2006, and changes during the years ending on those dates is presented below:

	December 31,			
	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	251,585	\$ 7	261,112	\$ 7
Options granted	0		0	
Options exercised	(130,143)	\$ 5	(9,527)	\$ 7
Options forfeited	(666)	\$ 12	0	
Options outstanding at end of year	120,776	\$ 8	251,585	\$ 7
Options exercisable at end of year	118,468	\$ 8	246,302	\$ 7

The following table summarizes information about stock options at December 31, 2007:

Exercise Price	Number Outstanding	Remaining Contractual Life in Years	Number Exercisable
\$7.50 - 8.75	114,847	1.3	114,847
\$12.50	5,929	1.3	3,621

#### NOTE N - SUBORDINATED DEBENTURES

The Company issued \$7,217,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust I, a Connecticut business trust, in which the Company owns all of the common equity. The debentures are the sole asset of the Trust. The Trust issued \$7,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a fully and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. These debentures were called on March 26, 2007. On June 30, 2006, The Company issued \$4,124,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 2 in which the Company owns all of the common equity. The debentures are the sole asset of the Trust. The Trust issued \$4,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a fully and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the company in 2011, or earlier in the event the deduction of related interest for federal income taxes is prohibited, treatment as Tier I capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2036. Interest on the preferred securities is the three month London Interbank Offer Rate (LIBOR) plus 1.65% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. On July 27, 2007, The Company issued \$6,186,000 of floating rate junior subordinated deferrable interest debentures to The First Bancshares Statutory Trust 3 in which the Company owns all of the common equity. The debentures are the sole asset of Trust 3. The Trust issued \$6,000,000 of Trust Preferred Securities (TPSs) to investors. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities. The preferred securities are redeemable by the Company in 2012, or earlier in the event the deduction of related interest for federal income taxes is prohibited, treatment as Tier 1 capital is no longer permitted, or certain other contingencies arise. The preferred securities must be redeemed upon maturity of the debentures in 2037. Interest on the preferred securities is the three month LIBOR plus 1.40% and is payable quarterly. The terms of the subordinated debentures are identical to those of the preferred securities. In accordance with the provisions of FASB Interpretation No. 46R (FIN 46R), "Consolidation of Variable Interest Entities, An Interpretation of ARB No. 51," the trusts are not included in the consolidated financial statements.

#### NOTE O - TREASURY STOCK

Shares held in treasury totaled 26,494 at December 31, 2007, and 2006.

#### NOTE P - RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank makes loans to its directors and executive officers and to companies in which they have a significant ownership interest. In the opinion of management, these loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties, are consistent with sound banking practices, and are within applicable regulatory and lending limitations. Such loans amounted to approximately \$6,955,000 and \$7,046,000 at December 31, 2007 and 2006, respectively. The activity in loans to current directors, executive officers, and their affiliates during the year ended December 31, 2007, is summarized as follows (in thousands):

Loans outstanding at beginning of year	\$ 7,046
--	----------

New loans	2,573
Repayments	(2,664)
	-----
Loans outstanding at end of year	\$ 6,955
	=====

During 2007, the Company purchased a building from one of its directors for approximately \$600,000.

**NOTE Q – COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS OF CREDIT RISK**

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as guaranties, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The subsidiary bank had outstanding letters of credit of \$1,168,000 and \$1,679,000 at December 31, 2007 and 2006, respectively, and had made loan commitments of approximately \$47,402,000 and \$57,114,000 at December 31, 2007 and 2006, respectively.

Commitments to extend credit and letters of credit include some exposure to credit loss in the event of nonperformance of the customer. 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. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit policies and procedures for such commitments are the same as those used for lending activities. Because these instruments have fixed maturity dates and because a number expire without being drawn upon, they generally do not present any significant liquidity risk. No significant losses on commitments were incurred during the two years ended December 31, 2007, nor are any significant losses as a result of these transactions anticipated.

The primary market area served by the Bank is Forrest, Lamar, Jones, Pearl River, Jackson, Hancock, Stone, and Harrison Counties within South Mississippi. Management closely monitors its credit concentrations and attempts to diversify the portfolio within its primary market area. As of December 31, 2007, management does not consider there to be any significant credit concentrations within the loan portfolio. Although the Bank's loan portfolio, as well as existing commitments, reflects the diversity of its primary market area, a substantial portion of a borrower's ability to repay a loan is dependent upon the economic stability of the area.

The Company has four leases for facilities. The first lease expires May 31, 2008. Monthly lease payments are \$2,392. The second lease requires monthly payments of \$3,013 through June, 2012. One five-year renewal option is included in the lease term. The third lease expires in December, 2008. Monthly lease payments are \$1,293. Lease payments increase 3% every twelve month period. The fourth lease expires in June, 2008. Monthly lease payments are \$6,045. The lease allows two six month options to renew. Three of the four leases are to related parties. Rent expense for 2007 to the related parties amounted to \$117,160.02.

---

Rental expense for premises and equipment for the years ended December 31, 2007 and 2006 was approximately \$208,000 and \$177,000, respectively.

On October 8, 2007 The First Bancshares, Inc. (the "Company") and its subsidiary, The First, A National Banking Association (the "Bank") were formally named as defendants.

The allegations against the Company and the Bank include counts of 1) Intentional Misrepresentation and Omission; 2) Negligent Misrepresentation and/or Omission; 3) Breach of Fiduciary Duty; 4) Breach of Duty of Good Faith and Fair Dealing; and 5) Civil Conspiracy. The First Amended Complaint seeks damages from all the defendants, including \$2,420,775, annual dividends for the year 2006 in the amount of \$.30 per share, punitive damages, and attorneys' fees and costs. The Company and the Bank deny any liability, and they intend to defend vigorously against this lawsuit.

**NOTE R – DISCLOSURE ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following disclosure of the estimated fair value of financial instruments is made in accordance with FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**Cash and Cash Equivalents** – For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

**Securities** – For securities held as investments, fair value equals market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

**Loans** – 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.

**Deposits** – The fair values of demand deposits are, as required by Statement No. 107, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

**Short-Term Borrowings** – The carrying value of any federal funds purchased and other short-term borrowings approximates their fair values.

**FHLB and Other Borrowings** – The fair value of the fixed rate borrowings are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowings approximates their fair values.

**Subordinated Debentures** – The subordinated debentures bear interest at a variable rate and the carrying value approximates the fair value.

**Off-Balance Sheet Instruments** – Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed. Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

	For the Year Ended December 31, 2007		For the Year Ended December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Instruments:				
Assets:				
Cash and cash equivalents	11,341	11,341	19,187	19,187
Securities available-for-sale	84,319	84,319	89,480	89,480
Securities held-to-maturity	13	13	13	14
Other securities	2,720	2,720	2,317	2,317
Loans	367,002	381,149	284,082	289,282
Liabilities:				
Noninterest-bearing				
Deposits	55,349	55,349	58,652	58,652
Interest-bearing deposits	330,819	332,837	293,070	293,132
Subordinated debentures	10,310	10,310	11,341	11,341
FHLB and other borrowings	60,773	60,773	20,827	20,827

#### NOTE S – STOCK SPLIT

On February 22, 2006, the Company's board of directors declared a two-for-one stock split effected in the form of a 100% stock dividend. The record date for the shareholders entitled to receive the additional shares was March 1, 2006. The stock split resulted in the issuance of approximately 1,187,600 shares of common stock and was accounted for by the transfer of approximately \$1,187,600 from additional paid-in capital to common stock. All per share amounts have been changed to reflect the stock split.

#### NOTE T – EQUITY OFFERING

On November 21, 2006, the Company closed on a public offering of its common stock. As a result of this offering, 365,000 shares were sold at a price of \$22.50 per share, with net proceeds of approximately \$8.2 million. Some of these proceeds were used to fund the acquisition of the First National Bank of Wiggins and the remainder will be used for general corporate purposes.

#### NOTE U – PARENT COMPANY FINANCIAL INFORMATION

The balance sheets, statements of income and cash flows for The First Bancshares, Inc. (parent only) follow.

#### Condensed Balance Sheets

	December 31,	
	2007	2006
Assets:		
Cash and cash equivalents	\$ 928,329	\$ 8,693,312
Investment in subsidiary bank	44,224,553	33,775,619
Investments in statutory trusts	310,000	341,000
Other securities	100,000	100,000
Premises and equipment	368,623	368,623
Other	660,875	453,435
	\$ 46,592,380	\$ 43,731,989
Liabilities and Stockholders' Equity:		
Subordinated debentures	10,310,000	11,341,000
Other	1,721	26,184
Stockholders' equity	36,280,659	32,364,805
	\$ 46,592,380	\$ 43,731,989

#### Condensed Statements of Income

	December 31,	
	2007	2006
Income:		
Interest and dividends	\$ 180,191	\$ 102,106
Other gains	198,682	224,315
Other	1,875	10,191
	380,748	336,612
Expenses:		
Interest on borrowed funds	563,806	783,657
Other	267,943	294,955

	831,749	1,078,612
Loss before income taxes and equity in undistributed income of		
Subsidiary	(451,001)	(742,000)
Income tax benefit	(242,332)	(360,435)
	-----	-----
Loss before equity in undistributed income of subsidiary	(208,669)	(381,565)
Equity in undistributed income of subsidiary	4,031,342	3,696,579
	-----	-----
Net income	\$3,822,673	\$3,315,014
	=====	=====

**Condensed Statements of Cash Flows**

	Years Ended December 31,	
	2007	2006
	-----	-----
Cash flows from operating activities:		
Net income	\$3,822,673	\$ 3,315,014
Adjustments to reconcile net income to net cash and cash		
Equivalents:		
Equity in undistributed income of subsidiary	(4,031,342)	(3,696,579)
Other gains	(198,682)	(224,315)
Other, net	(385,890)	253,628
Stock option expense	2,277	9,211
	-----	-----
Net cash used in operating activities	(790,964)	(343,041)
	-----	-----
Cash flows from investing activities:		
Investment in subsidiary bank	(5,893,541)	(5,215,782)
Other, net	31,000	(74,000)
Proceeds from sale of lease and land	352,669	532,755
	-----	-----
Net cash used in investing activities	(5,509,872)	(4,757,027)
	-----	-----
Cash flows from financing activities:		
Dividends paid on common stock	(1,564,155)	(380,031)
Issuance of subordinated debentures	6,186,000	4,124,000
Tax benefit of non-incentive stock options	418,543	-
Repayment of subordinated debentures	(7,217,000)	-
Exercise of stock options	712,465	67,288
Issuance of common stock	-	8,185,355
	-----	-----
Net cash provided by (used in) financing activities	(1,464,147)	11,996,612
	-----	-----
Net increase (decrease) in cash and cash equivalents	(7,764,983)	6,896,544
Cash and cash equivalents at beginning of year	8,693,312	1,796,768
	-----	-----
Cash and cash equivalents at end of year	\$ 928,329	\$8,693,312
	=====	=====

**NOTE V - SUMMARY OF QUARTERLY RESULTS OF OPERATIONS AND PER SHARE AMOUNTS (UNAUDITED)**

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	-----	-----	-----	-----
	(In thousands, except per share amounts)			
<b>2007</b>				
Total interest income	\$ 7,513	\$ 8,219	\$ 8,909	\$ 8,758
Total interest expense	3,344	3,603	3,987	4,208
	-----	-----	-----	-----
Net interest income	4,169	4,616	4,922	4,550
Provision for loan losses	330	320	316	355
	-----	-----	-----	-----
Net interest income after provision for				
loan losses	3,839	4,296	4,606	4,195
Total non-interest income	654	707	966	862
Total non-interest expense	3,506	3,550	3,783	3,984
Income tax expense	276	341	496	366
	-----	-----	-----	-----
Net income	\$ 711	\$ 1,112	\$ 1,293	\$ 707
	=====	=====	=====	=====
Per share:				
Net income, basic	\$ .24	\$ .37	\$ .43	\$ .24
Net income, diluted	.23	.36	.42	.24
Cash dividends declared	.30	.075	.075	.075

**2006**



Total interest income	\$ 4,843	\$ 5,548	\$ 6,079	\$ 7,289
Total interest expense	1,802	2,014	2,382	3,178
	-----	-----	-----	-----
Net interest income	3,041	3,534	3,697	4,111
Provision for loan losses	84	209	289	218
	-----	-----	-----	-----
Net interest income after provision for loan losses	2,957	3,325	3,408	3,893
Total non-interest income	447	676	509	607
Total non-interest expense	2,308	2,662	2,864	3,304
Income tax expense	377	351	322	359
	-----	-----	-----	-----
Net income	\$ 759	\$ 988	\$ 731	\$ 837
	=====	=====	=====	=====
Per share:				
Net income, basic	\$ .32	\$ .42	\$ .31	\$ .30
Net income, diluted	.30	.39	.29	.29
Cash dividends declared	.16	-	-	-

EXHIBIT 21

SUBSIDIARIES OF  
THE FIRST BANCSHARES, INC.

The First, A National Banking Association  
(A National chartered banking corporation)

The First Bancshares Statutory Trust 1  
(Connecticut statutory trust)

The First Bancshares Statutory Trust 2  
(Delaware statutory trust)

The First Bancshares Statutory Trust 3  
(Delaware statutory trust)

EXHIBIT 23

CONSENT OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements of The First Bancshares, Inc., on Form S-8 (Registration No. 333-97001 and No. 333-81264) of our report dated March 28, 2008 on the 2007 consolidated financial statements of The First Bancshares, Inc., which report is included in the 2007 Annual Report on Form 10-K of The First Bancshares, Inc.

/S/ T. E. LOTT & COMPANY

Columbus, Mississippi  
March 28, 2008

## RULE 13a-14(a)/15(d)-14(a) CERTIFICATIONS

I, David E. Johnson, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of The First Bancshares, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) 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: March 28, 2008

/s/ David E. Johnson

-----  
David E. Johnson  
Chief Executive Officer

## RULE 13a-14(a)/15(d)-14(a) CERTIFICATIONS

I, Dee Dee Lowery, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of The First Bancshares, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) 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: March 28, 2008

/s/ Dee Dee Lowery

-----  
Dee Dee Lowery  
Chief Financial Officer

SECTION 1350 CERTIFICATIONS

I, David E. Johnson, Chief Executive Officer, certify that

this periodic report containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 28, 2008

/s/ David E. Johnson

-----  
David E. Johnson  
Chief Executive Officer

I, Dee Dee Lowery, Chief Financial Officer, certify that

this periodic report containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 28, 2008

/s/ Dee Dee Lowery

-----  
Dee Dee Lowery  
Chief Financial Officer