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

FORM 10-K

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

For the fiscal year ended December 31, 2009

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 Each Class	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

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

Yes ____ No X

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 X

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 X No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 X

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

Indicate by check mark whether the registrant is a large accelerated file, 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 X -----

Based on the price at which the registrant's Common Stock was last sold at March 25, 2010, 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 $19,927,655.

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 3,019,869 on March 25, 2010.

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 20, 2010, and the Annual Report to the Stockholders for the year ended December 31, 2009.

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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 bank 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 110 S. 40th Ave. in Hattiesburg, a fifth location on Hwy 15 North in Laurel, a sixth location on Hwy 43 South in Picayune, a seventh location on Jackson Avenue in Pascagoula, an eighth location on Hwy 90 in Bay St. Louis, a ninth location on 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 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 Interlink, Plus, Pulse and Star networks of automated teller machines that may be used by the Bank's customers throughout Mississippi and other regions. The Bank also offers 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, 2010, the Company had 149 full-time employees and 9 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.

Legislative and Regulatory Initiatives to Address Financial and Economic Crises

The Congress, Treasury Department and the federal banking regulators, including the FDIC, have taken broad action since early September, 2008 to address volatility in the U.S. banking system.

In October 2008, the Emergency Economic Stabilization Act of 2008 (“EESA”) was enacted. The EESA authorizes the Treasury Department to purchase from financial institutions and their holding companies up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program (“TARP”). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated $250 billion towards the TARP Capital Purchase Program (“CPP”). Under the CPP, Treasury will purchase debt or equity securities from participating institutions. The TARP also includes direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications.

On February 6, 2009, as part of the TARP CPP, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the “Purchase Agreement”) with the Treasury Department, pursuant to which the Company sold (i) 5,000 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series UST (the “UST Preferred Stock”) and (ii) a warrant (the “Warrant”) to purchase 54,705 shares of the Company’s Common Stock for an exercise price of $13.71 per share.

The UST Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Warrant has a 10-year term and is immediately exercisable upon its issuance, and its exercise price is subject to anti-dilution adjustments.

EESA also increased FDIC deposit insurance on most accounts from $100,000 to $250,000. This increase is in place until the end of 2013 and is not covered by deposit insurance premiums paid by the banking industry.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program ("TLGP") on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program ("TAGP"), which provides unlimited deposit insurance coverage through June 30, 2010 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of $250,000, while the extra deposit insurance is in place. The Company is participating in the TAGP.

Effects of American Reinvestment and Recovery Act of 2009

On February 17, 2009, President Obama signed into law the America Reinvestment and Recovery Act of 2009 ("ARRA"). ARRA contains expansive new restrictions on executive compensation for financial institutions and other companies participating in the CPP. These restrictions apply to us and are further detailed in implementing regulations found at 31 CFR Part 30. (Any reference to "ARRA" herein includes a reference to the implementing regulations.)

ARRA prohibits bonus and similar payments to the most highly compensated employee of the Company. The prohibition does not apply to bonuses payable pursuant to "employment agreements" in effect prior to February 11, 2009. "Long-term" restricted stock is excluded from ARRA's bonus prohibition, but only to the extent the value of the stock does not exceed one-third of the total amount of annual compensation of the employee receiving the stock, the stock does not "fully vest" until after all CPP-related obligations have been satisfied, and any other conditions which the Treasury may specify have been met.

ARRA prohibits any payment to the principal executive officer, the principal financial officer, and any of the next eight most highly compensated employees upon departure from the Company for any reason for as long as any CPP-related obligations remain outstanding.

Under ARRA CPP-participating companies are required to recover any bonus or other incentive payment paid to the principal executive officer, the principal financial officer, or any of the next 23 most highly compensated employees on the basis of materially inaccurate financial or other performance criteria.

ARRA prohibits CPP participants from implementing any compensation plan that would encourage manipulation of the reported earnings of the Company in order to enhance the compensation of any of its employees.

ARRA requires the Chief Executive Officer and the Chief Financial Officer of any publicly-traded CPP-participating company to provide a written certification of compliance with the executive compensation restrictions in ARRA in the company's annual filings with the SEC beginning in 2010.

ARRA requires each CPP-participating company to implement a company-wide policy regarding excessive or luxury expenditures, including excessive expenditures on entertainment or events, office and facility renovations, aviation or other transportation services.

ARRA directs the Treasury to review bonuses, retention awards, and other compensation paid to the Chief Executive Officer and the next four other highest paid executive officer of the Company and the next 20 most highly compensated employees of each company receiving CPP assistance before ARRA was enacted, and to "seek to negotiate" with the CPP recipient and affected employees for reimbursement if it finds any such payments were inconsistent with CPP or otherwise in conflict with the public interest.

AARA also prohibits the payment of tax gross-ups; required disclosures related to perquisite payments and the engagement, if any, by the CPP participant of a compensation consultant; and prohibits the deduction for tax purposes of executive compensation in excess of $500,000 for each applicable senior executive.

These standards could change based on subsequent guidance issued by the Treasury or the Internal Revenue Service. Both prior to its participation in the CPP, and for so long as the Treasury continues to hold equity interests in the Company issued under the CPP, the Company will monitor its compensation arrangements and modify such compensation arrangements, agree to limit and limit its compensation deductions, and take such other actions as may be necessary to comply with the standards discussed above, as they may be modified from time to time. The Company does not anticipate that any material changes to its existing executive compensation structure will be required to comply with the executive compensation standards included in the CPP.

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 Bank's 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 $250,000 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, banks may open branches throughout Mississippi with the prior approval of the OCC. In addition, with prior regulatory approval, 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.

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, 2009, 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.

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 require the Company to include in its Annual Report, a report stating management's responsibility to establish and maintain adequate internal controls 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 is 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.

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crises. The Congress, Treasury Department and the federal banking regulators, including the FDIC, have taken broad action since early September, 2008 to address volatility in the U.S. banking system. See "Legislative and Regulatory Initiatives to Address Financial and Economic Crises" above.

ITEM 1A. RISK FACTORS

Making or continuing an investment in securities, including the Company's 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 the Company. Additional risks and uncertainties also could adversely affect the Company's business and results of operations. If any of the following risks actually occur, our 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 the Company's actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company.

We may be vulnerable to certain sectors of the economy

A portion of the 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. Our ability to dispose of foreclosed real estate at prices above the respective carrying values could also be impinged, causing additional losses.

Difficult market conditions have adversely affected the industry in which we operate

The capital and credit markets have been experiencing volatility and disruption for more than two years, causing volatility and disruption to reach unprecedented levels. Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence and widespread reduction of business activity generally. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institution industry. Also, the economic downturn could exacerbate our exposure to credit risk, particularly in our real estate markets, as lower home prices and increased foreclosures may result in higher charge-offs and delinquencies.

General economic conditions in the areas where our 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 we serve in the state of Mississippi may affect the ability of our customers to meet loan payments obligations on a timely basis. The local economic conditions in these areas have a significant impact on our 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 our market areas could negatively impact the financial results of the Company's banking operations and its profitability.

Additionally, adverse economic changes may cause customers to withdraw deposit balances, thereby causing a strain on our liquidity.

We are subject to a risk of rapid and significant changes in market interest rates

Our assets and liabilities are primarily monetary in nature, and as a result we are subject to significant risks tied to changes in interest rates. Our 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 net interest margins to decrease, subsequently decreasing net interest income. In addition, such changes could adversely affect the valuation of our assets and liabilities.

At present the Company's 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, the Company's results of operations are affected by changes in interest rates and the Company's 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 the Company's interest rate spread.

Certain changes in interest rates, inflation, or the financial markets could affect demand for our products and our 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 our securities portfolio lowering interest earnings from those investments. An unanticipated increase in inflation could cause operating costs related to salaries and benefits, technology, and supplies to increase at a faster pace than revenues.

The fair market value of the 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 profitability

The results of operations of the Company 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 the Company's 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.

Natural disasters could affect our ability to operate

Our market areas are susceptible to natural disasters such as hurricanes. Natural disasters can disrupt operations, result in damage to properties and negatively affect the local economies in which we operate. The Company cannot predict whether or to what extent damage caused by future hurricanes will affect operations or the economies in our 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 our earnings

The Company 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 operating results. 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. Credit risk with respect to its commercial and consumer loan portfolio will relate principally to the general creditworthiness of businesses and individuals within our local markets.

The Company makes various assumptions and judgments about the collectibility of its loan portfolio and provides an allowance for estimated loan losses based on a number of factors. The Company believes that its current allowance for loan losses is adequate. However, if our assumptions or judgments prove to be incorrect, the allowance for loan losses may not be sufficient to cover actual loan losses. We may have to increase the 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 the 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.

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

The First Bancshares' Common Stock is listed and traded on the NASDAQ stock market. Although the Company anticipates that its capital resources will be adequate for the foreseeable future to meet its capital requirements, at times we 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. Should these risks materialize, the ability to further expand its operations through internal growth may be limited.

We are subject to regulation by various Federal and State entities

The Company 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 operations.

The Company 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 we cannot be assured that such modifications or changes will not adversely affect the Company.

We engage in acquisitions of other businesses from time to time

On occasion, the Company 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.

We are subject to industry competition which may have an impact upon its success

The profitability of the Company depends on its ability to compete successfully. We operate in a highly competitive financial services environment. Certain competitors are larger and may have more resources than we do. We face competition in our 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 the nonbank competitors are not subject to the same extensive regulations that govern the Company 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. Our future success may depend, in part, on our ability to use technology competitively to provide products and services that provide convenience to customers and create additional efficiencies in operations.

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

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

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

Certain provisions of state and federal law and the Company's articles of incorporation may make it more difficult for someone to acquire control of the Company. 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 The 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 the Company's articles of incorporation that may be used to delay or block a takeover attempt. As a result, these statutory provisions and provisions in the Company's articles of incorporation could result in the Company being less attractive to a potential acquiror.

Securities issued by the Company, including First Bancshares' Common Stock, are not FDIC insured

Securities issued by the Company, including The 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.

There can be no assurance that recently enacted legislation will stabilize the U.S. financial system

On October 3, 2008, President Bush signed into law the EESA. The legislation was the result of a proposal by the Treasury in response to the financial crises affecting the banking system and financial markets and threats to investment banks and other financial institutions. Pursuant to the EESA, the Treasury was given the authority to, among other things, purchase up to $700

billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the Treasury announced the Capital Purchase Program, a program under the EESA pursuant to which it would purchase senior preferred stock and warrants to purchase common stock from participating financial institutions. On November 21, 2008, the FDIC adopted a Final rule with respect to its Temporary Liquidity Guarantee Program pursuant to which the FDIC can guarantee certain "newly-issued unsecured debt" of banks and certain holding companies and also guarantee, on an unlimited basis, noninterest-bearing bank transaction accounts. On February 17, 2009, President Obama signed into law the ARRA. The purposes of the legislation are to preserve and create jobs, to assist those most impacted by the recession, to provide investments to increase economic efficiency in health services, to invest in transportation, environmental protection and other infrastructure, and to stabilize local and state governments.

Each of these programs was implemented to help stabilize our economy and financial system. There can be no assurance, however, as to the actual impact that the EESA and its implementing regulations, the Capital Purchase Program, the FDIC programs, or any other governmental program will have on the financial markets. The failure of the EESA, the ARRA or the U.S. government to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect the Company's business, financial condition, and results of operations, access to credit or the trading price of the Company's common stock.

The failure of other financial institutions could adversely affect the Company

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and potential failures of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or concerns about, one or more financial institutions or the financial services industry generally have led to market-wide liquidity problems and could lead to losses or defaults by the Company or by other institutions.

Concern by customers over deposit insurance may cause a decrease in deposits and changes in the mix of funding sources available to the Company

With recent increased concerns about bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured and some may seek deposit products or other bank savings and investment products that are collateralized. Decreases in deposits and changes in the mix of funding sources may adversely affect the Company's funding costs and net income.

Evaluation of investment securities for other-than-temporary impairment involves subjective determinations and could materially impact the Company's results of operations and financial condition

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties, and is intended to determine whether declines in the fair value of investment should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuers' financial condition or future recovery prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. Estimating future cash flows involves incorporating information received from third-party sources and making internal assumptions and judgments regarding the future performance of the underlying collateral and assessing the probability that an adverse change in future cash flows has occurred. The determination of the amount of other-than-temporary impairments is based upon the Company's quarterly evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

Additionally, the Company's management considers a wide range of factors about the security issuer and uses its reasonable judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Impairments to the carrying value of our investment securities may need to be taken in the future, which would have a material adverse effect on our results of operations and financial condition.

The Company may be required to pay additional insurance premiums to the FDIC, which could negatively impact earnings

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased FDIC loss provisions, resulting in a decline in the designated reserve ratio to historical lows. The FDIC expects a higher rate of insured institution failures in the next few years compared to recent years; thus, the reserve ratio may continue to decline. In addition, the limit on FDIC coverage has been increased to $250,000 through December 31, 2013. These developments have caused the premiums assessed to the Company by the FDIC to increase.

The Company is a participant in the FDIC Temporary Liquidity Guarantee Program. Participating in this program requires the payment of additional insurance premiums to the FDIC.

Further, depending upon any future losses that the FDIC insurance fund may suffer, there can be no assurance that there will not be additional premium increases in order to replenish the fund. The FDIC may need to set a higher base rate schedule or impose special assessments due to future financial institution failures and updated failure and loss projections. Potentially higher FDIC assessment rates than those currently projected could have an adverse impact on the Company's results of operations.

The Company participates in the U.S. Treasury's Capital Purchase Program

- The Company received $5,000,000 in funding under the Capital Purchase Program in exchange for preferred stock and preferred stock warrants during 2009. Participation in this program constrains the Company's ability to raise dividends and repurchase equity securities and also places certain constraints on executive compensation arrangements. The increased funding provides assurance that the Company can maintain its minimum regulatory capital ratios in the face of future large real estate-related losses. The Company will have to repay these funds by raising capital within the next four years to keep its dividend costs from increasing to 9% per annum.

- o The rules that govern the Capital Purchase Program include restrictions on certain compensation to executive officers and a number of others in the Company. Among other things, these rules include a prohibition on golden parachute payments, a prohibition on providing tax gross-ups, a bonus claw-back provision, and a prohibition on paying any bonus payment to the Company's most highly compensated employees. It is possible that compensation restrictions imposed by the Capital Purchase Program and the American Reinvestment and Recovery Act of 2009 could impede our ability to attract and retain qualified executive officers.

- o Our participation in the Capital Purchase Program limits our quarterly dividend payments to no more than $.15 per share through the first quarter of 2012 without prior regulatory approval. Our ability to repurchase our common stock is also restricted.

- o Since the Capital Purchase Program was part of legislation that has the reputation of being passed as a bailout of the financial industry, participation in the program could also create some reputational risk. This reputation of the program could impede the Company's ability to attract business in competition with other financial institutions that did not participate. This reputational risk could also impede the Company's ability to attract and retain qualified executive officers.

As a result of the Company’s participation in the Capital Purchase Program (CPP), the Company may face additional regulation and cannot predict the cost or effects of compliance at this time

In connection with the Company’s participation in the CPP, the Company and the Bank may face additional regulations and/or reporting requirements, including, but not limited to, the following:

- o Section 5.3 of the standardized Securities Purchase Agreement that the Company entered into with the Treasury provides, in part, that the Treasury "may unilaterally amend any provision of this Agreement to the extent required to comply with any changes after the Signing Date in applicable federal statutes." This provision could give Congress the ability to impose "after-the-fact" terms and conditions on participants in the CPP. As a participant in the CPP, the Company would be subject to any such retroactive legislation. The Company cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which its business may be affected by any new regulation or statute.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

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 in an 11,700 square foot building located at 110 S. 40th Ave. in Hattiesburg, 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 its 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 Plaintiff seeks damages from all the defendants, including $2,957,385, 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. The Company and the Bank both deny any liability to Welch, and they intend to defend vigorously against this lawsuit.

The Defendants removed the case to the United States District Court for the Southern District of Mississippi, Hattiesburg Division, on March 12, 2008, based upon the Court’s federal question jurisdiction. On April 11, 2008, the Plaintiff filed a Motion to Remand the case to the Circuit Court of Jones County, Mississippi. The Motion to Remand was granted, and the case is currently pending in the Circuit Court of Jones County, Mississippi, Second Judicial District. The case is currently set for trial on June 14, 2010, in the Circuit Court of the Second Judicial District of Jones County, Mississippi.

On January 29, 2010, the Circuit Court of the Second Judicial District of Jones County, Mississippi entered an Agreed Order granting Plaintiff’s motion to amend his complaint to assert a declaratory judgment action against Kansas Bankers Surety Company on the question of insurance coverage.

ITEM 4. RESERVED

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 62 of the Company’s Annual Report to Shareholders for the year ended December 31, 2009, attached hereto as Exhibit 13, 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, 2009, attached hereto as Exhibit 13, is incorporated herein by reference.

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 27 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, attached hereto as Exhibit 13, 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 29 through 61 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, attached hereto as Exhibit 13, 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, 2009 that the Company’s disclosure controls and procedures were effective. During the quarter ended December 31, 2009, 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, 2009.

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.

This annual report does not include an attestation report of the Company’s independent registered public accounting firm regarding internal control over financial reporting. The Company’s registered public accounting firm was not required to issue an attestation report on internal controls over financial reporting pursuant to temporary rules of the Securities and Exchange Commission.

/s/ M. Ray (Hoppy) Cole, Jr.	/s/ Dee Dee Lowery
CEO and President	Executive VP and Chief Financial Officer
March 25, 2010	March 25, 2010

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 27, 2010, 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. 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 27, 2010, 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 27, 2010, is incorporated herein by reference.

As a CPP/TARP recipient the Company is required to have an Excessive Expenditure Policy. Such a policy was adopted by the Company's Board of Directors on July 23, 2009, and is posted on the Bank's website at www.thefirstbank.com.

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 27, 2010, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENTAND 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 27, 2010, 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 27, 2010, 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 27, 2010, 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. 333-102908 on Form S-2).
13	The Company's 2009 Annual Report
21	Subsidiaries of the Company
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
99.1	EESA Certification of CEO
99.2	EESA Certification of CFO

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 25, 2010

By: /s/ M. Ray (Hoppy) Cole, Jr.
M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer and President (Principal Executive Officer)

Date: March 25, 2010

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/ E. Ricky Gibson	Director	March 25, 2010
/s/ Charles R. Lightsey	Director	March 25, 2010
/s/ J. Douglas Seidenburg	Director	March 25, 2010
/s/ Andy Stetelman	Director	March 25, 2010
David W. Bomboy	Director	
/s/ Ted E. Parker	Director	March 25, 2010
/s/ Michael W. Chancellor	Director	March 25, 2010
/s/ Fred McMurry	Director	March 25, 2010
/s/ Dennis L. Pierce	Director	March 25, 2010
/s/ Gregory Mitchell	Director	March 25, 2010
/s/ David E. Johnson	Chairman of the Board and Director	March 25, 2010
/s/ M. Ray (Hoppy) Cole, Jr.	CEO, President and Director (Principal Executive Officer)	March 25, 2010
/s/ Dee Dee Lowery	Executive VP & Chief Financial Officer (Principal Financial and Accounting Officer)	March 25, 2010

EXHIBIT 13

THE FIRST BANCSHARES, INC.
2009 ANNUAL REPORT

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 subsidiary during the year ended December 31, 2009 when compared to the years 2008 and 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.

Companies are required to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company's intent and ability to hold the security. Pursuant to these requirements, Management assesses valuation declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or market-related factors, such as interest rates. Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are recorded in earnings as realized losses.

Goodwill is assessed for impairment both annually and when events or circumstances occur that make it more likely than not that impairment has occurred. The impairment test compares the estimated fair value of a reporting unit with its net book value. The Company has assigned all goodwill to one reporting unit that represents the overall banking operations. The analysis of goodwill for impairment requires significant assumptions about the economic environment, expected net interest margins, growth rates and the rate at which cash flows are discounted. No impairment was indicated when the annual test was performed in 2009.

Overview

The Company was incorporated on June 23, 1995, and serves as a bank 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 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 increased from approximately $474.8 million in total assets, and $378.1 million in deposits at December 31, 2008 to approximately $477.6 million in total assets, and $383.8 million in deposits at December 31, 2009. Loans decreased from $318.3 million at December 31, 2008 to approximately $314.0 at December 31, 2009. The Company increased from $36.6 million in shareholders' equity at December 31, 2008 to approximately $43.6 million at December 31, 2009. The First reported net income of $2,210,000 and $2,528,000 for the years ended December 31, 2009, and 2008, respectively. For the years ended December 31, 2009 and 2008, the Company reported consolidated net income applicable to common stockholders of $1,461,000 and $1,849,000, 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.

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

	December 31,				
	2009	2008	2007	2006	2005
Earnings:					
Net interest income	$ 16,039	$ 17,577	$ 18,256	$ 14,383	$ 10,150
Provision for loan					

Losses	1,206	2,205	1,321	800	921
Noninterest income	2,749	3,162	3,189	2,239	1,682
Noninterest expense	15,324	15,998	14,823	11,138	8,138
Net income	1,743	1,849	3,823	3,315	1,909
Net income applicable to common Stockholders	1,461	1,849	3,823	3,315	1,909
Per common share data:					
Basic net income per Share	$ .49	$ .62	$ 1.28	$ 1.35	$ .81
Diluted net income per Share	.49	.61	1.25	1.27	.77
Per share data:					
Basic net income per share	$ .58	$ .62	$ 1.28	$ 1.35	$ .81
Diluted net income per share	.58	.61	1.25	1.27	.77
Selected Year End Balances:					
Total assets	$ 477,552	$ 474,824	$ 496,056	$ 417,769	$ 294,390
Securities	114,618	102,303	87,052	91,810	50,660
Loans, net of Allowance	314,033	318,300	367,002	284,082	197,943
Deposits	383,754	378,079	386,168	351,722	241,949
Stockholders' equity	43,617	36,568	36,281	32,365	18,478

Results of Operations

The following is a summary of the results of operations by The First for the years ended December 31, 2009 and 2008.

	2009	2008
	(In thousands)	
Interest income	$ 26,270	$ 31,708
Interest expense	9,966	13,645
Net interest income	16,304	18,063
Provision for loan losses	1,206	2,205
Net interest income after provision for loan losses	15,098	15,858
Other income	2,747	3,160
Other expense	14,963	15,560
Income tax expense	672	930
Net income	$ 2,210	$ 2,528

The following reconciles the above table to the amounts reflected in the consolidated financial statements of the Company at December 31, 2009 and 2008:

	2009	2008
	(In thousands)	
Net interest income:		
Net interest income of subsidiary bank	$ 16,304	$ 18,063
Intercompany eliminations	(265)	(486)
	$ 16,039	$ 17,577
Net income:		
Net income of subsidiary bank	$ 2,210	$ 2,528
Net loss of the Company, excluding intercompany accounts	(749)	(679)

	2009	2008
	$ 1,461	$ 1,849

Consolidated Net Income

The Company reported consolidated net income applicable to common stockholders of $1,461,000 for the year ended December 31, 2009, compared to a consolidated net income of $1,849,000 for the year ended December 31, 2008. The decrease in income was attributable to a decrease in net interest income of $1,539,000 or 8.8%, and a decrease of $413,000 or 13.1% in other income and an increase in preferred stock dividends and accretion of $282,000 relating to the participation in the Capital Purchase Program (CPP).

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 $16,039,000 for the year ended December 31, 2009, as compared to $17,577,000 for the year ended December 31, 2008. This decrease was the direct result of declining interest rates during 2009 as compared to 2008. Average interest-bearing liabilities for the year 2009 were $384,744,000 compared to $403,017,000 for the year 2008. At December 31, 2009, the net interest spread, the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.19% compared to 3.30% at December 31, 2008. The net interest margin (which is net interest income divided by average earning assets) was 3.57% for the year 2009 compared to 3.78% for the year 2008. Rates paid on average interest-bearing liabilities decreased from 3.51% for the year 2008 to 2.66% for the year 2009. 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 71.3% of average earning assets for the year 2009 compared to 75.1% for the year 2008.

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,								
	2009			2008			2007		
	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate
Assets				(Dollars in thousands)					
Earning Assets..............									
Loans (1)(2)..........	$320,495	$22,323	6.97%	$349,572	$26,879	7.69%	$338,368	$28,732	8.49%
Securities...........	109,422	3,861	3.53%	96,357	4,416	4.58%	90,638	4,403	4.86%
Federal funds.sold....	17,331	28	.16%	16,885	331	1.96%	4,478	232	5.18%
Other................	1,991	66	3.31%	2,783	98	3.52%	612	32	5.23%
Total earning assets..	449,239	26,278	5.85%	465,597	31,724	6.81%	434,096	33,399	7.69%
Cash and due from banks.	9,172			9,940			9,570		
Premises and equipment..	14,675			15,538			11,300		
Other assets...........	13,620			13,256			13,411		
Allowance for loan losses	(5,064)			(4,566)			(4,160)		
Total assets...........	$481,642			$499,765			$464,217		
Liabilities									
Interest-bearing liabilities..........	$384,744	$10,239	2.66%	$403,017	$14,146	3.51%	$366,567	$15,143	4.13%
Demand deposits (1).....	48,855			56,236			61,565		
Other liabilities.......	6,366			3,964			2,691		
Shareholders' equity....	41,677			36,548			33,394		
Total liabilities and shareholders' equity	$481,642			$499,765			$464,217		
Net interest spread......			3.19%			3.30%			3.56%
Net yield on interest-earning assets................		$16,039	3.57%		$17,578	3.78%		$18,256	4.21%

____

(1) All loans and deposits were made to borrowers in the United States. Includes nonaccrual loans of

$4,367, $3,340, and $2,429, respectively, during the periods presented. Loans include held for sale loans.
(2) Includes loan fees of $1,161, $1,176, and $1,136, 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, 2009 versus 2008 Increase (decrease) due to			Year Ended December 31, 2008 versus 2007 Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Earning Assets						
Loans............................	$(2,236)	$(2,320)	$(4,556)	$ 950	$ (2,803)	$(1,853)
Securities.......................	598	(1,153)	(555)	278	(265)	13
Federal funds sold	9	(312)	(303)	643	(544)	99
Other short-term investments	(28)	(4)	(32)	114	(48)	66
Total interest income	(1,657)	(3,789)	(5,446)	1,985	(3,660)	(1,675)
Interest-Bearing Liabilities						
Interest-bearing transaction accounts.......................	618	(792)	(174)	535	(129)	406
Money market accounts............	(242)	(108)	(350)	(29)	(467)	(496)
Savings deposits.................	(18)	(58)	(76)	(31)	(284)	(315)
Time deposits....................	(566)	(2,058)	(2,624)	467	(1,373)	(906)
Borrowed funds...................	(471)	(212)	(683)	570	(256)	314
Total interest expense...........	(679)	(3,228)	(3,907)	1,512	(2,509)	(997)
Net interest income.............	$ (978)	$ (561)	$ (1,539)	$ 473	$(1,151)	$ (678)

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, 2007, 2008, and 2009.

	December 31, 2007				
	Within Three Months	**After Three Through Twelve Months**	**Within One Year**	**Greater Than One Year or Nonsensitive**	**Total**
	(Dollars in thousands)				
Assets					
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
Liabilities					
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

	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year of Nonsensitive	Total
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%	

December 31, 2008

	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year of Nonsensitive	Total
	(Dollars in thousands)				
Assets					
Earning Assets:					
Loans	$ 81,230	$ 57,092	$ 138,322	$ 184,762	$ 323,084
Securities (2)	14,487	14,112	28,599	73,704	102,303
Funds sold and other	13,359	2,762	16,121	-	16,121
Total earning assets	109,076	73,966	183,042	258,466	441,508
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$ -	$ 86,795	$ 86,795	$ -	$ 86,795
Money market accounts	27,836	-	27,836	-	27,836
Savings deposits (1)	-	18,419	18,419	-	18,419
Time deposits	15,361	114,555	129,916	57,518	187,434
Total interest-bearing deposits	43,197	219,769	262,966	57,518	320,484
Borrowed funds (3)	10,519	6,471	16,990	29,037	46,027
Total interest-bearing liabilities	53,716	226,240	279,956	86,555	366,511
Interest-sensitivity gap per period	$ 55,360	$(152,274)	$ (96,914)	$ 171,911	$ 74,997
Cumulative gap at December 31, 2008	$ 55,360	$ (96,914)	$ (96,914)	$ 74,997	$ 74,997
Ratio of cumulative gap to total earnings assets at December 31, 2008	12.5%	(21.9%)	(21.9%)	16.9%	

December 31, 2009

	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year of Nonsensitive	Total
	(Dollars in thousands)				
Assets					
Earning Assets:					
Loans	$ 63,217	$ 55,419	$ 118,636	$ 200,159	$ 318,795
Securities (2)	12,099	15,059	27,158	87,460	114,618
Funds sold and other	7,575	296	7,871	-	7,871
Total earning assets	82,891	70,774	153,665	287,619	441,284
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$ -	$ 122,363	$ 122,363	$ -	$ 122,363
Money market accounts	25,110	-	25,110	-	25,110
Savings deposits (1)	-	15,712	15,712	-	15,712
Time deposits	59,192	95,291	154,483	17,559	172,042
Total interest-bearing deposits	84,302	233,366	317,668	17,559	335,227
Borrowed funds (3)	26	10,404	10,430	21,607	32,037
Total interest-bearing liabilities	84,328	243,770	328,098	39,166	367,264
Interest-sensitivity gap per period	$ (1,437)	$ (172,996)	$(174,433)	$ 248,453	$ 74,020
Cumulative gap at December 31, 2009	$ (1,437)	$ (174,433)	$(174,433)	$ 74,020	$ 74,020
Ratio of cumulative gap to total earning assets at December 31, 2009	(.3%)	(39.5%)	(39.5%)	16.8%	

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(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. 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.

The Company's allowance consists of two parts. The first part is determined in accordance with authoritative guidance issued by the FASB regarding the allowance. The Company's determination of this part of the allowance is based upon quantitative and qualitative factors. A loan loss history based upon the prior four years is utilized in determining the appropriate allowance. Historical loss factors are determined by graded and ungraded loans by loan type. These historical loss factors are applied to the loans by loan type to determine an indicated allowance. The loss factors of peer groups are considered in the determination of the allowance and are used to assist in the establishment of a long-term loss history for areas in which this data is unavailable and incorporated into the qualitative factors to be considered. The historical loss factors may also be modified based upon other qualitative factors including but not limited to local and national economic conditions, trends of delinquent loans, changes in lending policies and underwriting standards, concentrations, and management's knowledge of the loan portfolio. These factors require judgment upon the part of management and are based upon state and national economic reports received from various institutions and agencies including the Federal Reserve Bank, United States Bureau of Economic Analysis, Bureau of Labor Statistics, meetings with the Company's loan officers and loan committees, and data and guidance received or obtained from the Company's regulatory authorities.

The second part of the allowance is determined in accordance with guidance issued by the FASB regarding impaired loans. Impaired loans are determined based upon a review by internal loan review and senior loan officers. Impaired loans are loans for which the bank does not expect to receive contractual interest and/or principal by the due date. A specific allowance is assigned to each loan determined to be impaired based upon the value of the loan's underlying collateral. Appraisals are used by management to determine the value of the collateral.

The sum of the two parts constitutes management's best estimate of an appropriate allowance for loan losses. When the estimated allowance is determined, it is presented to the Company's audit committee for review and approval on a quarterly basis.

Our allowance for loan losses model is focused on establishing a loss history within the bank and relying on specific impairment to determine credits that the bank feels the ultimate repayment source will be liquidation of the subject collateral. Our model takes into account many other factors as well such as local and national economic factors, portfolio trends, non performing asset, charge off, and delinquency trends as well as underwriting standards and the experience of branch management and lending staff. These trends are measured in the following ways:

Local Trends: (Updated quarterly usually the month following quarter end)
- Local Unemployment Rate
- Insurance issues (Windpool areas)
- Bankruptcy Rates (increasing/declining)
- Local Commercial R/E Vacancy rates
- Established market/new market
- Hurricane threat

National Trends: (Updated quarterly usually the month following quarter end)
- Gross Domestic Product (GDP)
- Home Sales
- Consumer Price Index (CPI)
- Interest Rate Environment (increasing/steady/declining)
- Single Family construction starts
- Inflation Rate
- Retail Sales

Portfolio Trends: (Updated monthly as the ALLL is calculated)
- Second Mortgages
- Single Pay Loans
- Non-Recourse Loans
- Limited Guaranty Loans
- Loan to Value Exceptions
- Secured by Non-Owner Occupied property
- Raw Land Loans
- Unsecured Loans

Measurable Bank Trends: (Updated quarterly)
- Delinquency Trends
- Non-Accrual Trends
- Net Charge Offs
- Loan Volume Trends
- Non-Performing Assets
- Underwriting Standards/Lending Policies
- Experience/Depth of Bank Lending Management

Our model takes into account many local and national economic factors as well as portfolio trends. Local and national economic trends are measured quarterly, typically in the month following quarter end to facilitate the release of economic data from the reporting agencies. These factors are allocated a basis point value ranging from -25 to +25 basis points and directly affect the amount reserved for each branch. As of December 31, 2009, most economic indicators both local and national pointed to a weak economy thus most factors were assigned a positive basis point value. This increased the amount of the allowance that was indicated by historical loss factors. Portfolio trends are measured monthly on a per branch basis to determine the percentage of loans in each branch that the bank has determined as having more risk. Portfolio risk is defined as areas in the bank's loan portfolio in which there is additional risk involved in the loan type or some other area in which the bank has identified as having more risk. Each area is tracked on bank-wide as well as on a branch-wide basis. Branches are analyzed based on the gross percentage of concentrations of the bank as a whole. Portfolio risk is determined by analyzing concentrations in the areas outlined by determining the percentage of each branch's total portfolio that is made up of the particular loan type and then comparing that concentration to the bank as a whole. Branches with concentrations in these areas are graded on a scale from – 25 basis points to + 25 basis points. Second mortgages, single pay loans, loans secured by raw land, unsecured loans and loans secured by non owner occupied property are considered to be of higher risk than those of a secured and amortizing basis. LTV exceptions place the bank at risk in the event of repossession or foreclosure.

Measurable Bank Wide Trends are measured on a quarterly basis as well. This consists of data tracked on a bank wide basis in which we have identified areas of additional risk or the need for additional allocation to the allowance for loan loss. Data is updated quarterly, each area is assigned a basis point value from -25 basis points to + 25 basis points based on how each area measures to the previous time period. Net charge offs, loan volume trends and non performing assets have all trended upwards therefore increasing the need for increased funds reserved for loan losses. Underwriting standards/ lending standards as well as experience/ depth of bank lending management is evaluated on a per branch level.

Loans are deemed to be impaired when, in the bank's opinion, the ultimate source of repayment will be the liquidation of collateral through foreclosure or repossession. Once identified updated collateral values are attained on these loans and impairment worksheets are prepared to determine if impairment exists. This method takes into account any expected expenses related to the disposal of the subject collateral. Specific allowances for these loans are done on a per loan basis as each loan is reviewed for impairment. Updated appraisals are ordered on real estate loans and updated valuations are ordered on non real estate loans to determine actual market value.

At December 31, 2009, the consolidated allowance for loan losses amounted to $4,762,000, or 1.49% of outstanding loans. At December 31, 2008, the allowance for loan losses amounted to $4,785,000, which was 1.48% of outstanding loans. The Company's provision for loan losses was $1,206,000 for the year ended December 31, 2009, compared to $2,205,000 for the year ended December 31, 2008.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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. Impaired loans not deemed collateral dependent are analyzed according to the ultimate repayment source, whether that is cash flow from the borrower, guarantor or some other source of repayment. Impaired loans are deemed collateral dependent if in the bank's opinion the ultimate source of repayment will be generated from the liquidation of collateral.

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 following tables illustrate the Company's past due and nonaccrual loans at December 31, 2009 and 2008.

December 31, 2009

	(In thousands)		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Non-Accrual
Real Estate-construction	$ 3,737	$ 205	$ 1,890
Real Estate-mortgage	2,104	74	1,416
Real Estate-non farm nonresidential	3,004	735	589
Commercial	897	419	452
Consumer	619	14	20
Total	$ 10,361	$ 1,447	$ 4,367

	December 31, 2008		
	(In thousands)		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Non-Accrual
Real Estate-construction	$ 1,845	$ 884	$ 1,480
Real Estate-mortgage	1,794	632	646
Real Estate-nonfarm residential	994	-	1,140
Commercial	907	83	50
Consumer	496	133	24
Total	$ 6,036	$ 1,732	$ 3,340

Total nonaccrual loans at December 31, 2009 amounted to $4.4 million which was an increase of $1.1 million over the December 31, 2008 amount of $3.3 million. This increase was due to the continued weakening of the real estate market. Management believes these relationships were adequately reserved at December 31, 2009. Restructured loans not reported as past due or nonaccrual at December 31, 2009 amounted to $.5 million.

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 asset 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, 2009 and December 31, 2008, the subsidiary bank had potential problem loans of $27,700,000 and $17,703,000, respectively. This represents an increase of $9,997,000.

Consolidated Allowance For Loan Losses

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Average loans outstanding.......................	$ 320,495	$ 349,572	$ 338,368	$ 237,578	$ 189,187
Loans outstanding at year end...................	$ 318,795	$ 323,084	$ 371,223	$ 287,875	$ 200,310
Total nonaccrual loans..........................	$ 4,367	$ 3,340	$ 2,429	$ 1,789	$ 283
Beginning balance of allowance..................	$ 4,785	$ 4,221	$ 3,793	$ 2,367	1,659
Loans charged-off...............................	(1,396)	(1,784)	(950)	(186)	(303)
Total loans charged-off.........................	(1,396)	(1,784)	(950)	(186)	(303)
Total recoveries................................	167	143	57	107	90
Net loans charged-off...........................	(1,229)	(1,641)	(893)	(79)	(213)
Acquisition.....................................	-	-	-	705	-
Provision for loan losses.......................	1,206	2,205	1,321	800	921
Balance at year end.............................	$ 4,762	$ 4,785	$ 4,221	$ 3,793	$ 2,367
Net charge-offs to average loans................	.38%	.47%	.26%	.03%	.11%
Allowance as percent of total loans.............	1.49%	1.48%	1.14%	1.32%	1.18%
Nonperforming loans as a percentage of total loans	1.37%	1.03%	.65%	.62%	.14%
Allowance as a multiple of nonaccrual loans......	1.1X	1.4X	1.7X	2.1X	8.4X

At December 31, 2009, the components of the allowance for loan losses consisted of the following:

	Allowance
	(In thousands)
Allocated:	
Impaired loans	$ 2,004
Graded loans	2,758
	$ 4,762

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

The following table represents the activity of the allowance for loan losses for the years 2008 and 2009.

Analysis of the Allowance for Loan Losses

	Years Ended December 31, 2009	2008
	(Dollars in thousands)	
Balance at beginning of year	$ 4,785	$ 4,221
Charge-offs:		
Real Estate-construction	296	974
Real Estate-farmland	2	-
Real Estate-mortgage	443	179
Real Estate-nonfarm residential	-	11
Commercial	389	290
Consumer	266	330
Total	1,396	1,784
Recoveries:		
Real Estate-construction	45	-
Real Estate-mortgage	4	1
Commercial	3	19
Consumer	115	123
Total	167	143
Net charge-off	1,229	1,641
Provision for loan losses	1,206	2,205
Balance at end of year	$ 4,762	$ 4,785

The following tables represent how the allowance for loan losses is allocated to a particular loan type as well as the percentage of the category to total loans at December 31, 2009 and 2008.

Allocation of the Allowance for Loan Losses

	December 31, 2009	
	(Dollars in thousands)	
	Amount	% of loans in each category to total loans
Commercial Non Real Estate	$ 1,015	13.9%
Commercial Real Estate	2,564	62.2%
Consumer Real Estate	687	17.8%
Consumer	317	3.9%
Unallocated	179	2.2%
Total	$ 4,762	100%

	December 31, 2008	
	(Dollars in thousands)	
	Amount	% of loans in each category to total loans
Commercial Non Real Estate	$ 746	11.8%
Commercial Real Estate	2,603	60.4%
Consumer Real Estate	965	20.8%
Consumer	452	7.0%

Unallocated	19	-
Total	$ 4,785	100%

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 experienced a decrease of $413,000 or 13.1% as compared to $3,161,000 for the year ended December 31, 2008, to $2,748,000 for the year ended December 31, 2009. The deposit activity fees were $1,897,000 for 2009 compared to $2,113,000 for 2008. Other service charges decreased by $17,000 or 2.1% from $779,000 for the year ended December 31, 2008, to $762,000 for the year ended December 31, 2009. Impairment losses on investment securities were $111,000 for 2009 as compared to none for 2008.

Noninterest expense decreased from $16.0 million for the year ended December 31, 2008 to $15.3 million for the year ended December 31, 2009. The Company experienced decreases in most expense categories. The largest increase was in deposit and other insurance, which increased by $545,000 in 2009 as compared to 2008. During the 4th quarter of 2008 the Company made efforts to cut non-interest expenses by reducing its workforce by thirteen positions, or 7.8%.

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

Noninterest Expense

	Years ended December 31,		
	2009	**2008**	**2007**
	(In thousands)		
Salaries and employee benefits	$ 8,401	$ 9,455	$ 8,962
Occupancy	1,071	1,146	983
Equipment	900	1,055	1,008
Marketing and public relations	329	250	323
Data processing	30	20	89
Supplies and printing	278	352	402
Telephone	249	260	162
Correspondent services	110	110	106
Deposit and other insurance	1,019	474	283
Professional and consulting fees	830	845	506
Postage	173	196	181
ATM fees	217	206	204
Other	1,716	1,629	1,614
Total	$ 15,323	$ 15,998	$14,823

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

Loan s. 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, 2009 and 2008, respectively, loans accounted for 71% and 75% 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 $320.5 million during 2009, as compared to $349.6 million during 2008, and $338.4 million during 2007.

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

Composition of Loan Portfolio

	December 31,					
	2009		**2008**		**2007**	
	Amount	**Percent Of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**

	(Dollars in thousands)					
Mortgage loans held for sale	$ 3,692	1.2%	$ 3,113	1.0%	$ 5,664	1.5%
Commercial, financial and agricultural	43,229	13.6%	37,861	11.7%	46,633	12.6%
Real Estate:						
Mortgage-commercial	87,492	27.4%	84,181	26.1%	84,854	22.9%
Mortgage-residential	102,738	32.2%	100,603	31.1%	112,676	30.3%
Construction	68,695	21.5%	81,178	25.1%	100,634	27.1%
Consumer and other	12,949	4.1%	16,149	5.0%	20,762	5.6%
Total loans	318,795	100%	323,085	100%	371,223	100%
Allowance for loan losses	(4,762)		(4,785)		(4,221)	
Net loans	$314,033		$ 318,300		$ 367,002	

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, 2009.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

	December 31, 2009			
Type	**One Year or Less**	**Through Five Years**	**Over Five Years**	**Total**
	(Dollars in thousands)			
Commercial, financial and agricultural	$ 23,032	$ 19,821	$ 376	$ 43,229
Real estate - construction	68,695	-	-	68,695
	$ 91,727	$ 19,821	$ 376	$111,924
Loans maturing after one year with:				
Fixed interest rates				$ 19,167
Floating interest rates				1,030
				$ 20,197

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 $109.4 million in 2009, as compared to $96.4 million in 2008 and $90.6 million in 2007. This represents 24.4%, 20.7%, and 20.9% of the average earning assets for the years ended December 31, 2009, 2008, and 2007, respectively. At December 31, 2009, investment securities were $114.6 million and represented 26% 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 focuses on growing 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,		
	2009	**2008**	**2007**
	(In thousands)		
Available-for-sale			
U. S. Government agencies	$ 59,519	$ 64,814	$ 58,080
States and municipal subdivisions	41,982	23,093	21,224
Corporate obligations	9,772	10,813	3,859
Mutual finds	958	959	1,156
Total available-for-sale	112,231	99,679	84,319
Held-to-maturity			

U.S. Government agencies	3	12	13
Total	$112,234	$ 99,691	$ 84,332

The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2009.

Investment Securities Maturity Distribution and Yields (1)

($ in thousands)	December 31, 2009							
	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)	9,676	3.81%	19,576	4.09%	2,140	1.37%	-	-
States and municipal subdivisions	5,267	1.84%	21,380	2.81%	12,680	3.83%	2,655	4.56%
Corporate obligations and other	1,001	5.07%	3,977	.80%	1,043	2.71%	3,751	2.30%
Total investment securities available-for-sale	$15,944		$44,933		$15,863		$ 6,406	

(1) Investments with a call feature are shown as of the contractual maturity date.
(2) Excludes mortgage-backed securities totaling $3 thousand with a yield of 3.22%.
(3) Excludes mortgage-backed securities totaling $28.1 million with a yield of 4.71% and mutual funds of $1.0 million.

Short-Term Investments . Short-term investments, consisting of Federal Funds Sold, averaged $17.3 million in 2009, $16.9 million in 2008, and $4.5 million in 2007. At December 31, 2009, and December 31, 2008, short-term investments totaled $7,575,000 and $13,359,000, 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 $19.1 million, or 5.0% in 2008. Average total deposits decreased $14.7 million, or 3.6% in 2009. At December 31, 2009, total deposits were $383.8 million, compared to $378.1 million a year earlier, an increase of 1.5%.

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

Deposits

($ in thousands)	December 31,					
	2009		2008		2007	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Noninterest-bearing accounts	$ 48,527	12.6%	$ 57,594	15.2%	$ 55,349	14.3%
NOW accounts	122,363	31.9%	86,795	22.9%	73,398	19.0%
Money market accounts	25,110	6.5%	27,836	7.4%	38,820	10.2%
Savings accounts	15,712	4.1%	18,419	4.9%	20,934	5.4%
Time deposits less than $100,000	82,116	21.4%	99,491	26.3%	93,213	24.1%
Time deposits of $100,000 or over	89,926	23.5%	87,944	23.3%	104,454	27.0%
Total deposits	$383,754	100%	$378,079	100%	$386,168	100%

The Company’s loan-to-deposit ratio was 82% at December 31, 2009 and 84% at December 31, 2008. The loan-to-deposit ratio averaged 83% during 2009. 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 $293.8 million at December 31, 2009 and $290.1 million at December 31, 2008. 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, 2009, 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

(In thousands)	Within Three Months	After Three Through Twelve Months	After Twelve Months	Total
December 31, 2009....................	$ 32,365	$ 50,558	$ 7,003	$ 89,926

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, 2009, advances from the FHLB totaled $17.0 million compared to $31.0 million at December 31, 2008. 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. There were no federal funds purchased at December 31, 2009 and December 31, 2008.

Reverse Repurchase Agreements consist of three $5,000,000 agreements. These agreements are secured by securities with a fair value of $17,444,000 at December 31, 2009 and $17,805,000 at December 31, 2008. The maturity dates are from August 22, 2012 through September 26, 2017, with rates between 3.81% and 4.51%.

Subordinated Debentures

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, 2009, was $43.6 million, an increase of $7.0 million or approximately 19.3%, compared with shareholders' equity of $36.6 million as of December 31, 2008.

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 4%. 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, 2009 and 2008.

Analysis of Capital

Capital Ratios	Adequately Capitalized	Well Capitalized	The Company December 31,		Subsidiary Bank December 31,	
			2009	2008	2009	2008
Leverage.......................	4.0%	5.0%	10.8%	9.4%	10.7%	9.3%
Risk-based capital:						
Tier 1......................	4.0%	6.0%	15.3%	12.8%	15.1%	12.5%
Total......................	8.0%	10.0%	16.5%	14.0%	16.3%	13.8%

Ratios

	2009	2008	2007

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Return on assets (net income applicable to common stockholders divided by average total assets)	.30%	.37%	.82%
Return on equity (net income applicable to common stockholders divided by average equity)	3.5%	5.1%	11.4%
Dividend payout ratio (dividends per share divided by net income per common share)	-	36.3%	41.0%
Equity to asset ratio (average equity divided by average total assets)	8.7%	7.3%	7.2%

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 $17.3 million during the year ended December 31, 2009 and totaled $7.6 million at December 31, 2009. 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, 2009, advances available totaled approximately $113.2 million of which $27.0 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.

EESA also increased FDIC deposit insurance on most accounts from $100,000 to $250,000. This increase is in place until the end of 2013 and is not covered by deposit insurance premiums paid by the banking industry.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program (“TLGP”) on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program (“TAGP”), which provides unlimited deposit insurance coverage through June 30, 2010 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of $250,000, while the extra deposit insurance is in place. The Company is participating in the TAGP.

The Company elected to participate in the Treasury TLG Program that provides an FDIC guarantee for all senior unsecured debt, with stated maturities in excess of 30 days, issued between October 14, 2008 and June 30, 2009. The guarantees will expire no later than June 30, 2012. The Company did not issue any debt under this program.

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 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, 2009 and 2008, 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, 2009 and 2008, 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 29, 2010

THE FIRST BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS	2009	2008
Cash and due from banks	$ 8,119,637	$ 8,887,322
Interest-bearing deposits with banks	296,236	2,762,203
Federal funds sold	7,575,000	13,359,000
Total cash and cash equivalents	15,990,873	25,008,525
Held-to-maturity securities (fair value of $3,047 in 2009 and $12,302 in 2008)	2,983	12,440
Available-for-sale securities	112,231,024	99,678,613
Other securities	2,383,650	2,611,900
Total securities	114,617,657	102,302,953
Loans held for sale	3,692,316	3,112,572
Loans, net of allowance for loan losses of $4,762,069 in 2009 and $4,784,919 in 2008	310,340,494	315,186,957
Interest receivable	2,318,207	2,604,585
Premises and equipment	14,279,291	15,279,185
Cash surrender value of life insurance	5,857,074	5,659,897
Goodwill	702,213	702,213
Other assets	9,754,144	4,967,341
Total assets	$ 477,552,269	$ 474,824,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 48,527,218	$ 57,594,234
Interest-bearing	335,226,686	320,484,383
Total deposits	383,753,904	378,078,617
Interest payable	672,355	849,873
Borrowed funds	32,037,082	46,027,274
Subordinated debentures	10,310,000	10,310,000
Other liabilities	7,162,262	2,990,378
Total liabilities	433,935,603	438,256,142
Stockholders' Equity:		
Preferred stock, no par value, $1,000 per share liquidation, 10,000,000 shares authorized; 5,000 shares issued and outstanding in 2009 and no shares issued and outstanding in 2008	4,773,010	-
Common stock, par value $1 per share: 10,000,000 shares authorized; 3,046,363 and 3,016,695 shares issued in 2009 and 2008, respectively	3,046,363	3,016,695
Additional paid-in capital	23,418,504	22,941,924
Retained earnings	12,943,540	11,482,585

Accumulated other comprehensive loss	(101,106)	(409,473)
Treasury stock, at cost	(463,645)	(463,645)
Total stockholders' equity	43,616,666	36,568,086
Total liabilities and stockholders' equity	$ 477,552,269	$ 474,824,228

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008

INTEREST INCOME	2009	2008
Interest and fees on loans	$ 22,322,737	$ 26,878,927
Interest and dividends on securities:		
Taxable interest and dividends	2,878,125	3,575,212
Tax-exempt interest	983,326	840,450
Interest on federal funds sold	28,143	331,376
Interest on deposits in banks	65,993	97,719
Total interest income	26,278,324	31,723,684
INTEREST EXPENSE		
Interest on time deposits of $100,000 or more	2,246,314	2,821,373
Interest on other deposits	6,230,761	8,877,148
Interest on borrowed funds	1,762,639	2,447,674
Total interest expense	10,239,714	14,146,195
Net interest income	16,038,610	17,577,489
Provision for loan losses	1,206,343	2,204,672
Net interest income after provision for loan losses	14,832,267	15,372,817
OTHER INCOME		
Service charges on deposit accounts	1,897,174	2,112,822
Other service charges and fees	762,783	779,428
Bank owned life insurance income	197,177	197,959
Loss on other real estate	(20,831)	(82,127)
Other	23,557	153,635
Impairment loss on securities:		
Total other-than-temporary impairment loss	(689,579)	-
Less: Portion of loss recognized in other comprehensive income	578,151	-
Net impairment loss recognized in earnings	(111,428)	-
Total other income	2,748,432	3,161,717
OTHER EXPENSE		
Salaries	7,098,129	8,156,502
Employee benefits	1,302,807	1,298,422
Occupancy	1,082,818	1,158,206
Furniture and equipment	1,104,138	1,172,961
Supplies and printing	278,376	352,050
Professional and consulting fees	830,387	845,457
Marketing and public relations	328,690	250,140
FDIC and OCC assessments	968,524	421,724
Other	2,329,322	2,342,049
Total other expense	15,323,191	15,997,511

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008

Continued:	2009	2008

Income before income taxes	2,257,508	2,537,023
Income taxes	514,111	688,158
Net income	1,743,397	1,848,865
Preferred dividends	225,694	-
Preferred stock accretion	56,748	-
Net income applicable to common stockholders	$ 1,460,955	$ 1,848,865
Net income per share:		
Basic	$ .58	$ .62
Diluted	.58	.61
Net income applicable to common stockholders:		
Basic	$ .49	$ .62
Diluted	.49	.61

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, 2009 AND 2008

	Comprehensive Income	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive	Accumulated Treasury Stock Income (Loss)	Total
Balance, January 1, 2008		$ 3,015,045	$ -	$22,929,333	$10,306,336	$493,590	$ (463,645)	$ 36,280,659
Comprehensive Income:								
Net income 2008	$1,848,865	-	-	-	1,848,865	-	-	1,848,865
Net change in unrealized gain (loss) on available-for-sale securities, net of tax	(903,063)	-	-	-	-	(903,063)	-	(903,063)
Comprehensive Income	$ 945,802							
Exercise of stock options		1,650	-	10,725	-	-	-	12,375
Stock option expense		-		1,866	-	-	-	1,866
Cash dividend declared, $.225 per share		-	-	-	(672,616)	-	-	(672,616)
Balance, December 31, 2008		3,016,695	-	22,941,924	11,482,585	(409,473)	(463,645)	36,568,086

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008

Continued:

	Comprehensive Income	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive	Treasury Stock	Total

						Income (Loss)		
Comprehensive Income:								
Net income 2009	$ 1,743,397	-	-	-	1,743,397	-	-	1,743,397
Non-credit related impairment loss on investment securities, net of tax	(381,580)	-	-	-	-	(381,580)	-	(381,580)
Net change in unrealized gain on available-for-sale securities, net of tax	702,010	-	-	-	-	702,010	-	702,010
Net change in unrealized loss on loans held for sale, net of tax	(12,063)	-	-	-	-	(12,063)	-	(12,063)
Comprehensive Income	$ 2,051,764							
Issuance of preferred stock and warrant		-	4,716,262	283,738	-	-	-	5,000,000
Accretion of preferred stock discount		-	56,748	-	(56,748)	-	-	-
Dividends on preferred stock		-	-	-	(225,694)	-	-	(225,694)
Exercise of stock options		29,668	-	192,842	-	-	-	222,510
Balance, December 31, 2009		$ 3,046,363	$4,773,010	$ 23,418,504	$12,943,540	$(101,106)	$(463,645)	$43,616,666

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,743,397	$ 1,848,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	970,262	1,056,786
Stock option expense	-	1,866
FHLB Stock dividends	(11,300)	(70,400)
Provision for loan losses	1,206,343	2,204,672
Impairment loss on investment securities	111,428	-
Deferred income taxes	(265,607)	(206,303)
Increase in cash value of life insurance	(197,177)	(197,959)
Securities, amortization and accretion, net	336,253	32,249
Loss on sale/writedown of other real estate	268,062	82,127
Changes in:		
Loans held for sale	(598,021)	2,551,241
Interest receivable	286,378	933,975
Other assets	(2,342,018)	1,978,689
Interest payable	(177,518)	72,144
Other liabilities	4,139,940	1,242,852
Net cash provided by operating activities	5,470,422	11,530,804

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale securities	(64,793,467)	(49,708,592)
Purchases of other securities	(110,600)	(374,350)
Proceeds from maturities and calls of available-for-sale securities	52,288,321	30,654,367
Proceeds from sales of securities available-for-sale	-	2,760,000
Proceeds from redemption of other securities	350,150	552,800
Decrease in loans	818,581	42,244,369
Net (additions) disposals to premises and equipment	245,086	(497,260)
Net cash provided by (used in) investing activities	(11,201,929)	25,631,334
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	5,675,287	(8,089,227)
Proceeds from borrowed funds	3,000,000	15,000,000
Repayment of borrowed funds	(16,990,192)	(29,745,246)
Exercise of stock options	222,510	12,375
Dividends paid on common stock	-	(672,616)
Dividends paid on preferred stock	(193,750)	-
Proceeds from issuance of preferred stock and warrant	5,000,000	-
Net cash used in financing activities	(3,286,145)	(23,494,714)

The accompanying notes are an integral part of these statements.

THE FIRST BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

Continued:	2009	2008
Net increase (decrease) in cash and cash equivalents	(9,017,652)	13,667,424
Cash and cash equivalents at beginning of year	25,008,525	11,341,101
Cash and cash equivalents at end of year	$ 15,990,873	$ 25,008,525
Supplemental disclosures:		
Cash paid during the year for:		
Interest	$ 10,417,232	$ 14,580,872
Income taxes	876,436	934,200
Non-cash activities:		
Transfers of loans to other real estate	2,821,539	1,701,975

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 bank 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 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 SIGNIFICANT 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, 2009, 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, 2009 and 2008.

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. Management reviews for impairment based on the ultimate recoverability of the cost basis.

Other-than-Temporary Impairment

Management evaluates investment securities for other-than-temporary impairment on a quarterly basis. A decline in the fair value of available-for-sale and held-to-maturity securities below cost that is deemed other-than-temporary is charged to earnings for a decline in value deemed to be credit related and a new cost basis for the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

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, in accordance with the impairment accounting guidance Accounting Standards Codification (ASC) Section 310-10-35, *Receivables, Subsequent Measurement*, 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 ASC Topic 450, *Contingencies*, or ASC Subtopic 310-10. 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, 2009 and 2008, other real estate totaled $2,902,997 and $1,629,409, 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, 2009.

(Dollars in thousands)	Goodwill	Core deposit intangible
Balance, January 1, 2009	$ 702	$ 537
Amortization	-	69
Balance, December 31, 2009	$ 702	$ 468

Acquired goodwill and core deposit intangible are related to the acquisition of First National Bank of Wiggins on October 1, 2006.

The following table presents the forecasted core deposit intangible asset amortization expense for 2010 through 2014.

(Dollars in thousands) Year	Full year expected amortization
2010	$69
2011	69
2012	69
2013	69
2014	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 is reported as an asset, and increases in cash surrender values are reported as income.

12. Stock Options

The Company accounted for stock based compensation in accordance with ASC Topic 718, *Compensation - Stock Compensation*. No stock options were granted during the twelve months ended December 31, 2009.

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.
ASC Topic 740, *Income Taxes*, provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. ASC Topic 740 requires an evaluation of tax positions to determine if the tax positions will more likely than not be sustainable upon examination by the appropriate taxing authority. The Company at December 31, 2009 and 2008, had no uncertain tax positions that qualify for either recognition or disclosure in the 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, 2009 and 2008, was approximately $246,306 and $186,073, 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. Earnings Applicable to Common Stockholders

Per share amounts are presented in accordance with ASC Topic 260, *Earnings Per Share*. Under ASC Topic 260, 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, such as outstanding stock options.

The following table discloses the reconciliation of the numerators and denominators of the basic and diluted computations applicable to common stockholders:

	For the Year Ended December 31, 2009			For the Year Ended December 31, 2008		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic per common share	$1,460,955	3,011,430	$ .49	$1,848,865	2,989,666	$ .62
Effect of dilutive shares:						
Stock options		-			46,393	
	$1,460,955	3,011,430	$ .49	$1,848,865	3,036,059	$ .61

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

18. Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform with the classifications used in 2009. These reclassifications did not impact the Company's consolidated financial condition or results of operations.

19. Accounting Pronouncements

In June, 2009, FASB issued the Accounting Standards Codification (ASC) Topic 105, *Generally Accepted Accounting Principles*, which became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered nonauthoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

In April, 2009, the FASB issued ASC Topic 820, *Fair Value Measurements and Disclosures*. This guidance affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction; includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market is inactive; eliminates the presumption that all transactions are distressed unless proven otherwise requiring an entity to base its conclusion on the weight of evidence; and requires an entity to disclose a change in valuation technique resulting from application of the guidance and to quantify its effects, if practicable. The guidance is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The adoption of the guidance did not have a material impact on the Company's financial condition or results of operation.

In April 2009, the FASB issued ASC Topic 320, *Investments-Debt and Equity Securities*,(specifically ASC Section 320-10-35) regarding recognition and presentation of other-than-temporary impairments that changes existing guidance for determining whether an impairment is other-than-temporary to debt securities; replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis; requires that an entity recognize noncredit losses on held-to-maturity debt securities in other comprehensive income and amortize the amount over the remaining life of the security in a prospective manner by offsetting the recorded value of the asset unless the security is subsequently sold or there are credit losses; requires an entity to present the total other-than-temporary impairment in the statement of earnings with an offset for the amount recognized in other comprehensive income; and at adoption, requires an entity to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security before recovery. The authoritative guidance is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The adoption of the guidance did not have a material impact on the Company's financial condition or results of operations.

In April 2009, the FASB issued ASC Topic 825, *Financial Instruments*. Under this guidance, a publicly traded company is required to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity is required to disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheet. The guidance was effective for interim periods ending after June 15, 2009. The adoption of the guidance did not have a material impact on the Company's financial condition or results of operations.

In February 2009, the FASB issued ASC Topic 805, *Business Combinations*, regarding accounting for assets acquired and liability assumed in a business combination that arise from contingencies, that amends provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. The guidance is effective for all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact on the Company's financial condition or results of operations is dependent on the extent of future business combinations.

In April 2008, the FASB issued ASC Subtopic 350-20, *Goodwill* and ASC Subtopic 350-30, *Intangible Other than Goodwill* for the determination of the useful life of intangible assets which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under previous guidance for determining goodwill and other intangible assets. The intent of the guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of the guidance did not have a material impact on the Company's financial condition or results of operations.

ASC Topic 860, *Transfers and Servicing*, amends prior guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including

information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 will be effective January 1, 2010, and is not expected to have a significant impact on the Company's consolidated financial statements.

NOTE C - SECURITIES

A summary of the amortized cost and estimated fair value of available-for-sale securities and held-to-maturity securities at December 31, 2009 and 2008, follows:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government Agencies	$ 31,061,333	$ 387,491	$ 56,602	$ 31,392,222
Tax-exempt and taxable obligations of states and municipal subdivisions	41,088,714	965,403	72,217	41,981,900
Mortgage-backed securities	27,226,696	985,163	84,851	28,127,008
Corporate obligations	11,742,149	51,683	2,021,721	9,772,111
Other	1,247,049	-	289,266	957,783
	$112,365,941	$ 2,389,740	$2,524,657	$112,231,024
Held-to-maturity securities:				
Mortgage-backed securities	$ 2,983	$ 64	$ -	$ 3,047

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Obligations of U.S. Government agencies	$ 28,010,915	$ 703,354	$ -	$28,714,269
Tax-exempt and taxable obligations of states and municipal subdivisions	23,305,755	243,123	455,620	23,093,258
Mortgage-backed securities	35,869,951	524,946	295,877	36,099,020
Corporate obligations	11,903,923	59,839	1,150,369	10,813,393
Other	1,208,474	-	249,801	958,673
	$100,299,018	$ 1,531,262	$2,151,667	$99,678,613
Held-to-maturity securities:				
Mortgage-backed securities	$ 12,440	$ -	$ 138	$ 12,302

The scheduled maturities of securities at December 31, 2009, were as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due less than one year	$ 15,731,960	$15,943,868	$ -	$ -
Due after one year through five years	44,261,937	44,932,952	-	-
Due after five years through ten years	15,504,492	15,863,078	-	-
Due after ten years	9,640,856	7,364,118	-	-
Mortgage-backed securities	27,226,696	28,127,008	2,983	3,047
	$112,365,941	$112,231,024	$ 2,983	$ 3,047

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

No gains or losses resulting from the sale of available-for-sale securities were realized in 2009 or 2008. An other-than-temporary impairment loss of $111,428 was recognized for the year ended 2009.

Securities with a carrying value of $84,231,952 and $53,743,733 at December 31, 2009 and 2008, 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, 2009 and 2008, were as follows:

	2009					
	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	$ 7,113,888	$ 56,602	$ -	$ -	$ 7,113,888	$ 56,602
Tax-exempt and taxable obligations of states and municipal subdivisions	5,055,888	71,665	90,567	552	5,146,455	72,217
Mortgage-backed securities	776,355	3,091	321,532	81,760	1,097,887	84,851
Corporate obligations	487,730	398,736	3,811,605	1,622,985	4,299,335	2,021,721
Other	-	-	957,783	289,266	957,783	289,266
	$13,433,861	$ 530,094	$ 5,181,487	$ 1,994,563	$18,615,348	$2,524,657

	2008					
	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	$ -	$ -	$ -	$ -	$ -	$ -
Tax-exempt and taxable obligations of states and municipal subdivisions	8,517,167	354,987	684,367	100,633	9,201,534	455,620
Mortgage-backed securities	8,327,567	292,600	14,702	3,277	8,342,269	295,877
Corporate obligations	7,946,273	1,058,465	280,090	91,904	8,226,363	1,150,369
Other	-	-	958,673	249,801	958,673	249,801
	$24,791,007	$1,706,052	$1,937,832	$ 445,615	$26,728,839	$2,151,667

Approximately 23.5% of the number of securities in the investment portfolio at December 31, 2009, 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 lack of liquidity in the credit markets. We have determined that these securities are not other-than-temporarily impaired based upon anticipated cash flows.

NOTE D - LOANS

Loans outstanding included the following types at December 31, 2009 and 2008:

	2009	2008
	(In thousands)	
Commercial, financial and agricultural	$ 43,229	$ 37,861
Real estate - construction	68,695	81,178
Real estate - mortgage	190,229	184,784
Installment loans to individuals	12,812	15,942
Overdrafts	137	207
	315,102	319,972
Allowance for loan losses	(4,762)	(4,785)

	$ 310,340	$ 315,187

Transactions in the allowance for loan losses for the years ended December 31, 2009 and 2008, were as follows:

	2009	2008
Balance at beginning of year	$ 4,784,919	$ 4,221,240
Additions:		
Provision for loan losses charged to operations	1,206,343	2,204,672
Recoveries	166,904	142,861
	6,158,166	6,568,773
Deductions:		
Loans charged off	1,396,097	1,783,854
Balance at end of year	$4,762,069	$ 4,784,919

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2009, the Company had $0.8 million of commercial loans and $1.5 million of real estate - mortgage loans that were modified in troubled debt restructurings and impaired. In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of $.5 million of real estate - mortgage loans at December 31, 2009.

The following table represents the Company's impaired loans at December 31, 2009 and 2008. This table excludes performing troubled debt restructurings.

	2009	2008
	(In thousands)	
Impaired Loans:		
Impaired loans without a valuation allowance	$ 12,295	$ 9,322
Impaired loans with a valuation allowance	8,314	7,470
Total impaired loans	$ 20,609	$ 16,792

Continued:

	2009	2008
	(In thousands)	
Allowance for loan losses on impaired loans at year end	$ 2,004	$ 1,369
Total nonaccrual loans	4,367	3,340
Past due 90 days or more and still accruing	1,447	1,732
Average investment in impaired loans	19,114	13,784
Interest paid on impaired loans	1,297	861

NOTE E - PREMISES AND EQUIPMENT

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

	2009	2008
Premises:		
Land	$ 4,970,959	$ 4,963,029
Buildings and improvements	9,848,581	10,316,062
Equipment	4,418,294	5,341,598
Construction in progress	141,923	10,947
	19,379,757	20,631,636
Less accumulated depreciation and amortization	5,100,466	5,352,451
	$14,279,291	$15,279,185

The amounts charged to operating expense for depreciation were $754,808 and $840,501 in 2009 and 2008, respectively.

NOTE F - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more as of December 31, 2009, and 2008 was $89,926,071 and $87,943,691, respectively.

At December 31, 2009, the scheduled maturities of time deposits included in interest-bearing deposits were as follows (in thousands):

Year	Amount
2010	$154,483
2011	10,030
2012	2,819
2013	1,286
2014	3,424
	$172,042

NOTE G - BORROWED FUNDS

Borrowed funds consisted of the following:

	December 31,	
	2009	2008
Reverse Repurchase Agreement	$15,000,000	$15,000,000
FHLB advances	17,037,082	31,027,274
	$32,037,082	$46,027,274

Advances from the FHLB have maturity dates ranging from June, 2010 through July, 2013. Interest is payable monthly at rates ranging from 2.959% 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, 2009, FHLB advances available and unused totaled $86,214,775.

Future annual principal repayment requirements on the borrowings from the FHLB at December 31, 2009, were as follows:

Year	Amount
2010	$10,430,185
2011	3,075,064
2012	1,761,059
2013	1,770,774
	$17,037,082

Reverse Repurchase Agreements consisted of three $5,000,000 agreements. The agreements are secured by securities with

a fair value of $17,444,000 at December 31, 2009 and $17,805,000 at December 31, 2008. The maturity dates are from August 22, 2012 through September 26, 2017, with rates between 3.81% and 4.51%.

NOTE H - 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, 2009, that the Company and its subsidiary bank exceeded all capital adequacy requirements.

At December 31, 2009 and 2008, 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, 2009 and 2008, 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
December 31, 2009				
Total risk-based	$56,545	16.5%	$55,686	16.3%
Tier I risk-based	52,259	15.3%	51,410	15.1%
Tier I leverage	52,259	10.8%	51,410	10.7%
December 31, 2008				
Total risk-based	$49,637	14.0%	$48,580	13.8%
Tier I risk-based	45,214	12.8%	44,171	12.5%
Tier I leverage	45,214	9.4%	44,171	9.3%

The minimum amounts of capital and ratios as established by banking regulators at December 31, 2009 and 2008, were as follows:

	Company (Consolidated)		Subsidiary The First	
	Amount	Ratio	Amount	Ratio
December 31, 2009				
Total risk-based	$27,397	8.0%	$27,326	8.0%
Tier I risk-based	13,698	4.0%	13,663	4.0%
Tier I leverage	19,307	4.0%	19,252	4.0%
December 31, 2008				
Total risk-based	$28,278	8.0%	$28,189	8.0%
Tier I risk-based	14,139	4.0%	14,095	4.0%
Tier I leverage	19,106	4.0%	19,052	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 I - COMPREHENSIVE INCOME

The Company and its subsidiary bank report comprehensive income as required by ASC Topic 220, Comprehensive Income. In accordance with this statement, unrealized gains and losses on securities available-for-sale are included in accumulated 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,	
	2009	2008
Unrealized holdings gains (losses) on available-for-sale securities and loans held for sale	$ 355,795	$(1,368,275)
Reclassification adjustment for losses realized in income	111,428	-
Net unrealized gains (losses)	467,223	(1,368,275)
Tax effect	158,856	465,212
Net unrealized gains (losses), net of tax	$ 308,367	$ (903,063)

NOTE J - INCOME TAXES

The components of income tax expense are as follows:

Years Ended December 31,

	2009	2008
Current:		
Federal	$ 731,452	$ 820,839
State	48,266	73,622
Deferred (benefit)	(265,607)	(206,303)
	$ 514,111	$ 688,158

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,			
	2009		2008	
	Amount	%	Amount	%
Income taxes at statutory rate	$ 767,553	34%	$ 862,588	34%
Tax-exempt income	(399,973)	(18)%	(352,397)	(14)%
Nondeductible expenses	140,342	6%	186,832	8%
State income tax, net of federal tax effect	31,856	2%	48,591	2%
Tax credits	(25,887)	(1)%	(63,797)	(3)%
Other, net	220	-	6,341	-
	$ 514,111	23%	$ 688,158	27%

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

	December 31,	
	2009	2008
Deferred tax assets:		
Allowance for loan losses	$ 1,384,855	$ 1,354,720
Unrealized loss on available-for-sale securities	45,870	210,938
Net operating loss carryover	885,272	963,009
Other	360,925	154,736
	2,676,922	2,683,403
Deferred tax liabilities:		
Securities	(155,772)	(158,298)
Premises and equipment	(761,078)	(839,723)
Core deposit intangible	(174,480)	(200,329)
	(1,091,330)	(1,198,350)
Net deferred tax asset, included in other assets	$ 1,585,592	$ 1,485,053

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.

The Company adopted the provisions of the ASC Topic 740, Income Taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of ASC Topic 740, the Company did not identify any uncertain tax positions that it believes should be recognized in the financial statements. The tax years still subject to examination by taxing authorities are years subsequent to 2006.

NOTE K - 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 $131,660 in 2009 and $138,841 in 2008.

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, 2009, the ESOP held 6,620 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 $2,500 for 2009 and $10,500 for 2008.

NOTE L - STOCK PLANS

On May 27, 1999, the Company's stockholders 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, 2008, 213,356 options had been granted, and 95,530 had been exercised or forfeited. All options expired and were void unless exercised on or before April 15, 2009. In 2009, 29,668 options were exercised and the remaining options expired. The options were exercisable at not less than the market value of the Company's stock at the grant date.

In 2007, the Company adopted the 2007 Stock Incentive Plan. The 2007 Plan provides for the issuance of up to 315,000 shares of Company Common Stock, $1.00 par value per share. Shares issued under the 2007 Plan may consist in whole or in part of authorized but unissued shares or treasury shares. As of December 31, 2009, no awards had been granted.

A summary of the status of the stock option plans as of December 31, 2009 and 2008, and changes during the years ending on those dates is presented below:

	December 31,			
	2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	117,826	$8	120,776	$8
Options exercised	(29,668)	8	(1,650)	8
Options forfeited	(88,158)	12	(1,300)	12
Options outstanding at end of year	-	0	117,826	8
Options exercisable at end of year	-	0	117,826	8

NOTE M - SUBORDINATED DEBENTURES

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 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 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 ASC Topic 810, Consolidation, the trusts are not included in the consolidated financial statements.

NOTE N - TREASURY STOCK

Shares held in treasury totaled 26,494 at December 31, 2009, and 2008.

NOTE O - 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 $14,814,000 and $11,875,000 at December 31, 2009 and 2008, respectively. The activity in loans to current directors, executive officers, and their affiliates during the year ended December 31, 2009, is summarized as follows (in thousands):

Loans outstanding at beginning of year	$ 11,875
New loans	4,285
Repayments	(1,346)

Loans outstanding at end of year	$ 14,814
	========

NOTE P - 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 $1,012,000 and $937,000 at December 31, 2009 and 2008, respectively, and had made loan commitments of approximately $39,967,000 and $36,117,000 at December 31, 2009 and 2008, 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, 2009, 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, 2009, 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 had five leases for facilities during 2008. The first lease expired May, 2008 and was not renewed. Monthly lease payments were $2,458. The second lease expired in August, 2008 and was not renewed. Monthly lease payments were $1,293. The third lease expired in May, 2008 and was not renewed. Monthly lease payments were $6,045. Permanent owned space was used to replace these three expired leases. The fourth lease requires monthly payments of $3,013 through June, 2012. One five-year renewal option is included in the lease term. The fifth lease requires monthly payments of $4,600 and expired in May, 2009. Since May, 2009 the lease has been on a monthly basis with a 60 day termination notice requirement. Rental expense for 2009 to related parties amounted to $0.

Rental expense for premises and equipment for the years ended December 31, 2009 and 2008, was approximately $136,000 and $193,000, 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 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. The Plaintiff seeks damages from all the defendants, including $2,957,385, 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 both deny any liability to Welch, and intend to defend vigorously against this lawsuit.

NOTE Q - FAIR VALUES OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Company adopted ASC Topic 820, Fair Value Measurements and Disclosures, that establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance has been applied prospectively as of the beginning of the period.
The guidance defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.
In accordance with the guidance, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1:	Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2:	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
Level 3:	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a

recurring basis and recognized in the accompanying balance sheet.

Available-for-Sale Securities

The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted

market prices are available in an active market, securities are classified within Level 1. The Company has no securities classified within Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include U.S. Treasury securities, obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, mortgage-backed securities and collateralized mortgage obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the hierarchy in which the fair value measurements fall as of December 31, 2009 and December 31, 2008 (in thousands):

December 31, 2009

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 112,231	$ -	$ 108,998	$ 3,233

December 31, 2008

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 99,679	$ -	$ 99,679	$ -

The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information.

(Dollars in thousands)	Bank-Issued Trust Preferred Securities
Balance, December 31, 2008	$ -
Transfers into Level 3	5,338
Transfers out of Level 3	-
Other-than-temporary impairment loss included in earnings	(111)
Unrealized loss included in comprehensive income	(1,994)
Balance, December 31, 2009	$ 3,233

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value

on a non-recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans or, where a loan is determined not to be collateral dependent, using the discounted cash flow method.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. If the impaired loan is determined not to be collateral dependent, then the discounted cash flow method is used. This method requires the impaired loan to be recorded at the present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate of a loan is the contractual interest rate adjusted for any net deferred loan fees or costs, premiums or discount existing at origination or acquisition of the loan. Impaired loans are classified within Level 2 of the fair value hierarchy.

Other Real Estate Owned

Other real estate owned consists of properties obtained through foreclosure. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Fair value of other real estate owned is based on current independent appraisals. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original

estimate. If it is determined the fair value declines subsequent to foreclosure, a valuation allowance is recorded through non-interest expense. Operating costs associated with the assets after acquisition are also recorded as non-interest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other non-interest expense. Other real estate owned measured at fair value on a non-recurring basis at December 31, 2009, amounted to $2.9 million. Other real estate owned is classified within Level 2 of the fair value hierarchy.

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2009 and December 31, 2008.

December 31, 2009

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Sinificant Unobservable Inputs (Level 3)
Impaired loans	$ 20,609	$ -	$ 20,609	$ - -
Other real estate owned	$ 2,903	$ -	$ 2,903	$ -

December 31, 2008

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Sinificant Unobservable Inputs (Level 3)
Impaired loans	$ 16,792	$ -	$ 16,792	$ -
Other real estate owned	$ 1,629	$ -	$ 1,629	$ -

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

Investment in securities available-for-sale and held-to-maturity - The fair value measurement for securities available-for-sale was discussed earlier. The same measurement approach was used for securities held-to-maturity.

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 ASC Topic 825, 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 borrowing approximates its fair value.

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.

	As of December 31, 2009	As of December 31, 2008

	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Instruments:				
Assets:				
Cash and cash equivalents	$ 15,991	$ 15,991	$25,009	$25,009
Securities available-for-sale	112,231	112,231	99,679	99,679
Securities held-to-maturity	3	3	12	12
Other securities	2,384	2,384	2,612	2,612
Loans, net	314,033	326,271	318,300	332,389
Liabilities:				
Noninterest-bearing Deposits	$ 48,527	$ 48,527	$57,594	$57,594
Interest-bearing deposits	335,227	337,238	320,484	325,777
Subordinated debentures	10,310	10,310	10,310	10,310
FHLB and other borrowings	32,037	32,037	46,027	46,027

NOTE R - SENIOR PREFERRED STOCK

On February 6, 2009, under the U.S. Department of Treasury's (Treasury) Capital Purchase Program (CPP) established under the Troubled Asset Relief Program (TARP) that was created as part of the Emergency Economic Stabilization Act of 2008 (EESA), the Company issued to Treasury 5,000 non-voting shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value, having a liquidation amount of $1,000 per share, and a ten-year warrant to purchase 54,705 shares of common stock at an exercise price of $13.71 per share, for aggregate proceeds of $5 million. The total capital raised through this issue qualifies as Tier 1 regulatory capital and can be used in calculating all regulatory capital ratios.

Cumulative preferred stock dividends are payable quarterly at a 5% annual rate on the per share liquidation amount for the first five years and 9% thereafter. All redemptions would be at the liquidation amount per share plus accrued and unpaid dividends and are subject to prior regulatory approval.

The Company may not declare or pay dividends on its common stock or, with certain exceptions, repurchase common stock without first having paid all accrued cumulative preferred dividends that are due. For three years from the issue date, the Company also may not increase its common stock dividend rate above an annual rate of $.15 per share or repurchase its common shares without Treasury's consent, unless Treasury has transferred all the preferred shares to third parties or the preferred stock has been redeemed.

The American Recovery and Reinvestment Act (ARRA) became law on February 17, 2009. Among its many provisions, the ARRA imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Company, that are in addition to those previously announced by the Treasury. These limits are effective until the institution has repaid the Treasury.

NOTE S - SUBSEQUENT EVENTS

Management has evaluated the effect of subsequent events on these financial statements through the date the financial statements were issued.

NOTE T - PARENT COMPANY FINANCIAL INFORMATION

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

Condensed Balance Sheets

	December 31, 2009	December 31, 2008
Assets:		
Cash and cash equivalents	$ 285,232	$ 561,309
Investment in subsidiary bank	52,768,436	45,249,878
Investments in statutory trusts	310,000	310,000
Other securities	100,000	100,000
Premises and equipment	368,623	368,623
Other	207,448	290,705
	$54,039,739	$ 46,880,515
Liabilities and Stockholders' Equity:		
Subordinated debentures	10,310,000	10,310,000

Other	113,073	2,429
Stockholders' equity	43,616,666	36,568,086
	$54,039,739	$46,880,515

Condensed Statements of Income

	Years Ended December 31,	
	2009	2008
Income:		
Interest and dividends	$ 25,354	$ 38,196
Dividend income	-	600,000
Other	1,500	1,500
	26,854	639,696
Expenses:		
Interest on borrowed funds	291,110	523,894
Other	360,820	436,863
	651,930	960,757
Loss before income taxes and equity in undistributed income of Subsidiary	(625,076)	(321,061)
Income tax benefit	(158,282)	(241,539)
Loss before equity in undistributed income of subsidiary	(466,794)	(79,522)
Equity in undistributed income of subsidiary	2,210,191	1,928,387
Net income	$1,743,397	$1,848,865

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net income	$ 1,743,397	$ 1,848,865
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed income of subsidiary	(2,210,191)	(1,928,387)
Other, net	161,957	370,877
Stock option expense	-	1,866
Net cash provided by (used in) operating activities	(304,837)	293,221
Cash flows from investing activities:		
Investment in subsidiary bank	(5,000,000)	-
Net cash used in investing activities	(5,000,000)	-
Cash flows from financing activities:		
Dividends paid on common stock	-	(672,616)
Dividends paid on preferred stock	(193,750)	-
Exercise of stock options	222,510	12,375
Proceeds from issuance of preferred stock and warrant	5,000,000	-
Net cash provided by (used in) financing activities	5,028,760	(660,241)
Net decrease in cash and cash equivalents	(276,077)	(367,020)
Cash and cash equivalents at beginning of year	561,309	928,329
Cash and cash equivalents at end of year	$ 285,232	$ 561,309

NOTE U - 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)			
2009				
Total interest income	$ 6,666	$ 6,608	$ 6,501	$ 6,503
Total interest expense	2,812	2,634	2,493	2,301
Net interest income	3,854	3,974	4,008	4,202
Provision (credit) for loan losses	628	464	(36)	150
Net interest income after provision for loan losses	3,226	3,510	4,044	4,052
Total non-interest income	684	604	734	727
Total non-interest expense	3,658	3,890	3,707	4,069
Income tax expense	61	43	301	109
Net income	191	181	770	601
Preferred dividends	38	63	63	62
Preferred stock accretion	14	14	14	14
Net income applicable to common stockholders	$ 139	$ 104	$ 693	$ 525
Per common share:				
Net income, basic	$ .05	$ .03	$ .23	$ .18
Net income, diluted	.05	.03	.23	.18
Cash dividends declared	-	-	-	-
2008				
Total interest income	$ 8,682	$ 8,168	$ 7,672	$ 7,202
Total interest expense	3,990	3,816	3,183	3,157
Net interest income	4,692	4,352	4,489	4,045
Provision for loan losses	366	634	721	484
Net interest income after provision for loan losses	4,326	3,718	3,768	3,561
Total non-interest income	762	915	795	690
Total non-interest expense	3,963	4,176	4,085	3,774
Income tax expense	335	118	143	92
Net income applicable to common stockholders	$ 790	$ 339	$ 335	$ 385
Per common share:				
Net income, basic	$ .26	$ .11	$ .11	$ .14
Net income, diluted	.26	.11	.11	.13
Cash dividends declared	.075	.075	.075	-

EXHIBIT 21

SUBSIDIARIES OF
THE FIRST BANCSHARES, INC.

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

The First Bancshares Statutory Trust 2
(Delaware statutory trust)

The First Bancshares Statutory Trust 3
(Delaware statutory trust)

EXHIBIT 31

CERTIFICATIONS

I, M. Ray (Hoppy) Cole, Jr., 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: March 25, 2010

/s/ M. Ray (Hoppy) Cole, Jr.

M. Ray (Hoppy) Cole, Jr.
Chief Executive Officer

EXHIBIT 31

CERTIFICATIONS

I, Dee Dee Lowery, 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f))for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to

be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: March 25, 2010

/s/ Dee Dee Lowery

Dee Dee Lowery
Chief Financial Officer

EXHIBIT 32

CERTIFICATIONS

I, M. Ray (Hoppy) Cole, Jr. 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 25, 2010

/s/ M. Ray (Hoppy) Cole, Jr.

M. Ray (Hoppy) Cole, Jr.
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 25, 2010

/s/ Dee Dee Lowery

Dee Dee Lowery
Chief Financial Officer

EXHIBIT 99.1
EESA CERTIFICATION

I, M. Ray (Hoppy) Cole, Jr., certify, based on my knowledge, that:

(i) The compensation committee of The First Bancshares, Inc. has discussed, reviewed, and evaluated with senior risk officers at least every six months during the period beginning on the later of September 14, 2009, or ninety days after the closing date of the agreement between the TARP recipient and Treasury and ending with the last day of the TARP recipient's fiscal year containing that date (the applicable period), the senior executive officer (SEO) compensation plans and the employee compensation plans and the risks these plans pose to The First Bancshares, Inc.;

(ii) The compensation committee of The First Bancshares, Inc. has identified and limited during the applicable period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of , and during that same applicable period has identified any features of the employee compensation plans that pose risks to The First Bancshares, Inc. and has limited those features to ensure that The First Bancshares, Inc. is not unnecessarily exposed to risks;

(iii) The compensation committee has reviewed, at least every six months during the applicable period, the terms of each employee compensation plan and identified any features of the plan that could encourage the manipulation of reported earnings of The First Bancshares, Inc. to enhance the compensation of an employee, and has limited any such features;

(iv) The compensation committee of The First Bancshares, Inc. will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;

(v) The compensation committee of The First Bancshares, Inc. will provide a narrative description of how it limited during any part of the most recently completed fiscal year that included a TARP period the features in

(A) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of The First Bancshares, Inc.;
(B) Employee compensation plans that unnecessarily expose The First Bancshares, Inc. to risks; and

(C) Employee compensation plans that could encourage the manipulation of reported earnings of The First Bancshares, Inc. to enhance the compensation of an employee;

(vi) The First Bancshares, Inc. has required that bonus payments, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), of the SEOs and twenty next most highly compensated employees be subject to a recovery or "clawback" provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(vii) The First Bancshares, Inc. has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to an SEO or any of the next five most highly compensated employees during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(viii) The First Bancshares, Inc. has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(ix) The board of directors of The First Bancshares, Inc. has established an excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, by the later of September 14, 2009, or ninety days after the closing date of the agreement between the TARP recipient and Treasury; this policy has been provided to Treasury and its primary regulatory agency; The First Bancshares, Inc. and its employees have complied with this policy during the applicable period; and any expenses that, pursuant to this policy, required approval of the board of directors, a committee of the board of directors, an SEO, or an executive officer with a similar level of responsibility were properly approved;

(x) The First Bancshares, Inc. will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to SEO compensation paid or accrued during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(xi) The First Bancshares, Inc. will disclose the amount, nature, and justification for the offering during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds $25,000 for any employee who is subject to the bonus payment limitations identified in paragraph (viii);

(xii) The First Bancshares, Inc. will disclose whether The First Bancshares, Inc., the board of directors of The First Bancshares, Inc. or the compensation committee of The First Bancshares, Inc. has engaged during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date, a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;

(xiii) The First Bancshares, Inc. has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the SEOs and the next twenty most highly compensated employees during the period beginning on the later of the closing date of the

agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(xiv) The First Bancshares, Inc. has substantially complied with all other requirements related to employee compensation that are provided in the agreement between The First Bancshares, Inc. and Treasury, including any amendments;

(xv) The First Bancshares, Inc. has submitted to Treasury a complete and accurate list of the SEOs and the twenty next most highly compensated employees for the current fiscal year and the most recently completed fiscal year, with the non-SEOs ranked in descending order of level of annual compensation, and with the name, title, and employer of each SEO and most highly compensated employee identified; and

(xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both. (See, for example, 18 U.S.C. 1001.)

By: /s/ M. Ray (Hoppy) Cole, Jr.

M. Ray (Hoppy) Cole, Jr.
Principal Executive Officer

Date: March 25, 2010

EXHIBIT 99.2
EESA CERTIFICATION

I, Dee Dee Lowery, certify, based on my knowledge, that:

(i) The compensation committee of The First Bancshares, Inc. has discussed, reviewed, and evaluated with senior risk officers at least every six months during the period beginning on the later of September 14, 2009, or ninety days after the closing date of the agreement between the TARP recipient and Treasury and ending with the last day of the TARP recipient's fiscal year containing that date (the applicable period), the senior executive officer (SEO) compensation plans and the employee compensation plans and the risks these plans pose to The First Bancshares, Inc.;

(ii) The compensation committee of The First Bancshares, Inc. has identified and limited during the applicable period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of , and during that same applicable period has identified any features of the employee compensation plans that pose risks to The First Bancshares, Inc. and has limited those features to ensure that The First Bancshares, Inc. is not unnecessarily exposed to risks;

(iii) The compensation committee has reviewed, at least every six months during the applicable period, the terms of each employee compensation plan and identified any features of the plan that could encourage the manipulation of reported earnings of The First Bancshares, Inc. to enhance the compensation of an employee, and has limited any such features;

(iv) The compensation committee of The First Bancshares, Inc. will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;

(v) The compensation committee of The First Bancshares, Inc. will provide a narrative description of how it limited during any part of the most recently completed fiscal year that included a TARP period the features in

(A) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of The First Bancshares, Inc.;
(B) Employee compensation plans that unnecessarily expose The First Bancshares, Inc. to risks; and

(C) Employee compensation plans that could encourage the manipulation of reported earnings of The First Bancshares, Inc. to enhance the compensation of an employee;

(vi) The First Bancshares, Inc. has required that bonus payments, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), of the SEOs and twenty next most highly compensated employees be subject to a recovery or "clawback" provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(vii) The First Bancshares, Inc. has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to an SEO or any of the next five most highly compensated employees during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(viii) The First Bancshares, Inc. has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(ix) The board of directors of The First Bancshares, Inc. has established an excessive or luxury

expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, by the later of September 14, 2009, or ninety days after the closing date of the agreement between the TARP recipient and Treasury; this policy has been provided to Treasury and its primary regulatory agency; The First Bancshares, Inc. and its employees have complied with this policy during the applicable period; and any expenses that, pursuant to this policy, required approval of the board of directors, a committee of the board of directors, an SEO, or an executive officer with a similar level of responsibility were properly approved;

(x) The First Bancshares, Inc. will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to SEO compensation paid or accrued during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(xi) The First Bancshares, Inc. will disclose the amount, nature, and justification for the offering during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds $25,000 for any employee who is subject to the bonus payment limitations identified in paragraph (viii);

(xii) The First Bancshares, Inc. will disclose whether The First Bancshares, Inc., the board of directors of The First Bancshares, Inc. or the compensation committee of The First Bancshares, Inc. has engaged during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date, a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;

(xiii) The First Bancshares, Inc. has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the SEOs and the next twenty most highly compensated employees during the period beginning on the later of the closing date of the agreement between the TARP recipient and Treasury or June 15, 2009 and ending with the last day of the TARP recipient's fiscal year containing that date;

(xiv) The First Bancshares, Inc. has substantially complied with all other requirements related to employee compensation that are provided in the agreement between The First Bancshares, Inc. and Treasury, including any amendments;

(xv) The First Bancshares, Inc. has submitted to Treasury a complete and accurate list of the SEOs and the twenty next most highly compensated employees for the current fiscal year and the most recently completed fiscal year, with the non-SEOs ranked in descending order of level of annual compensation, and with the name, title, and employer of each SEO and most highly compensated employee identified; and

(xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both. (See, for example, 18 U.S.C. 1001.)

By: /s/ Dee Dee Lowery

Dee Dee Lowery
Principal Financial Officer

Date: March 25, 2010