

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

FORM 10-K

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

For the fiscal year ended December 31, 2010

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:

Exchange on

Name of Each

Title of Each Class

Which

Registered

Common Stock, \$1.00 par value  
Stock Market, LLC

NASDAQ

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

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

Based on the price at which the registrant's Common Stock was last sold at March 24, 2011, 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 \$4,651,645.18.

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. 3,066,072 on March 24, 2011

#### 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 21, 2011, and the Annual Report to the Stockholders for the year ended December 31, 2010.

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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. 40<sup>th</sup> 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 24, 2011 the Company had 148 full-time employees and 10 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 the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), and now most recently the sweeping Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), 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.

*Emergency Economic Stabilization Act of 2008: Troubled Asset Relief Program.* In October 2008, the Emergency Economic Stabilization Act of 2008 (“EESA”) was enacted. The EESA authorized 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 allocated \$250 billion towards the TARP Capital Purchase Program (“CPP”), pursuant to which the Treasury Department purchased debt or equity securities from participating institutions. The TARP also includes the Community Development Capital Initiative (“CDCI”), which was made available only to certified Community Development Financial Institutions (“CDFIs”) and imposed a lower dividend or interest rate, as applicable, than the CPP funding. Participants in the TARP 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 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 “CPP 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. On September 29, 2010, after successfully obtaining CDFI certification, the Company exited the CPP by refinancing its CPP funding into lower-cost CDCI funding and also accepted additional CDCI funding. In connection with this transaction, the Company retired its CPP Preferred Stock and issued to the Treasury Department 17,123 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series CD (the “CDCI Preferred Stock”). Including refinanced funding and newly obtained funding, the Company’s total CDCI funding is \$17,123,000.

The CDCI Preferred Stock qualifies as Tier 1 capital and, provided that the Company maintains its CDFI eligibility and certification, is entitled to cumulative dividends at a rate of 2% per annum until 2018, 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.

In order to benefit from the lower dividend rate associated with the CDCI Preferred Stock, the Company is required to maintain compliance with the eligibility requirements of the CDFI Program. These eligibility requirements include the following:

- The Company must have a primary mission of promoting community development, based on criteria set forth in 12 C.F.R. 1805.201(b)(1);
- The Company must provide Financial Products, Development Services, and/or other similar financing as a predominant business activity in arm’s-length transactions, as provided in 12 C.F.R. 1805.201(b)(2);
- The Company must serve a Target Market by serving one or more Investment Areas and/or Targeted Populations, substantially in the manner set forth in 12 C.F.R. 1805.201(b)(3);
- The Company must provide Development Services in conjunction with its Financial Products, either directly, through an Affiliate, or through a contract with a third-party provider, as provided in 12 C.F.R. 1805.201(b)(4);
- The Company must maintain accountability to residents of the applicable Investment Area(s) and/or Targeted Population(s) through representation on its governing Board of Directors or otherwise, as provided in 12 C.F.R. 1805.201(b)(5); and

- The Company must remain a non-governmental entity which is not an agency or instrumentality of the United States of America, or any State or political subdivision thereof, as described in 12 C.F.R. 1805.201(b)(6) and within the meaning of any supplemental regulations or interpretations of 12 C.F.R. 1805.201(b)(6) or such supplemental regulations published by the Fund.

As used in the discussion above, the terms “Affiliate,” “Financial Products,” “Development Services,” “Target Market,” “Investment Area(s),” and “Targeted Population(s)” have the meanings ascribed to such terms in 12 C.F.R. 1805.104.

EESA also temporarily increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. However, with the passage of the Dodd-Frank Act, this increase in the basic coverage limit has been made permanent.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program (“TLGP”) on October 14, 2008. The TLGP included the Transaction Account Guarantee Program (“TAGP”), which provided unlimited deposit insurance coverage for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP paid a 10 basis points fee (annualized) on the balance of each covered account in excess of \$250,000 while the extra deposit insurance was in place. The TAGP was set to expire on December 31, 2010. However, with the passage of the Dodd-Frank Act, the insurance coverage provided under the Transaction Account Guarantee Program has in effect been extended until December 31, 2012, with some changes. Perhaps the most significant differences between the current version of the Transaction Account Guarantee Program and the Dodd-Frank extension of the program are (i) that all banks are required to participate in the new coverage, with no opt-out available, and (ii) that interest-bearing NOW accounts will no longer benefit from the unlimited insurance coverage beginning January 1, 2011 (although IOLTA accounts will continue to benefit from the unlimited coverage).

*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 contained expansive new restrictions on executive compensation for financial institutions and other companies participating in the TARP. 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 TARP-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 TARP-related obligations remain outstanding.

Under ARRA TARP-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 TARP 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 TARP-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 TARP-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 TARP assistance before ARRA was enacted, and to "seek to negotiate" with the TARP recipient and affected employees for reimbursement if it finds any such payments were inconsistent with TARP or otherwise in conflict with the public interest.

ARRA also prohibits the payment of tax gross-ups; required disclosures related to perquisite payments and the engagement, if any, by the TARP 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. As long as the Treasury continues to hold equity interests in the Company issued under the TARP, 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 TARP.

*Dodd-Frank Act* . The recent enactment during 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") will likely result in increased regulation of the financial services industry. Provisions likely to affect the activities of the Company and the Bank include, without limitation, the following:

- *Asset-based deposit insurance assessments* . FDIC deposit insurance premium assessments will be based on bank assets rather than domestic deposits.
- *Deposit insurance limit increase* . The deposit insurance coverage limit has been permanently increased from \$100,000 to \$250,000.
- *Extension of Transaction Account Guarantee Program* . Unlimited deposit insurance coverage is extended for non-interest-bearing transaction accounts and certain other accounts for two years. This applies to all banks; there is no opt-in or opt-out requirement.
- *Establishment of the Bureau of Consumer Financial Protection (BCFP)* . The BCFP will be housed within the Federal Reserve and, in consultation with the Federal banking agencies, will make rules relating to consumer protection. The BCFP has the authority, should it wish to do so, to rewrite virtually all of the consumer protection regulations governing banks, including those implementing the Truth in Lending Act, the Real Estate Settlement Procedures Act (or RESPA), the Truth in Savings Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the S.A.F.E. Mortgage Licensing Act, the Fair Credit Reporting Act (except Sections 615(e) and 628), the Fair Debt Collection Practices Act, and the Gramm-Leach-Bliley Act (sections 502 through 509 relating to privacy), among others.
- *Risk-retention rule* . Banks originating loans for sale on the secondary market or securitization must retain 5 percent of any loan they sell or securitize, except for mortgages that meet low-risk standards to be developed by regulators.

- *Limitation on federal preemption* . Limitations have been imposed on the ability of national bank regulators to preempt state law. Formerly, the national bank and federal thrift regulators possessed preemption powers with regard to transactions, operating subsidiaries and attorney general civil enforcement authority. These preemption requirements have been limited by the Dodd-Frank Act, which will likely impact state banks by affecting activities previously permitted through parity with national banks.
- *Changes to regulation of bank holding companies* . Under Dodd-Frank, bank holding companies must be well-capitalized and well-managed to engage in interstate transactions. In the past, only the subsidiary banks were required to meet those standards. The Federal Reserve Board's "source of strength doctrine" has now been codified, mandating that bank holding companies such as the Company serve as a source of strength for their subsidiary banks, meaning that the bank holding company must be able to provide financial assistance in the event the subsidiary bank experiences financial distress.
- *Executive compensation limitations* . The Dodd-Frank Act codified executive compensation limitations similar to those previously imposed on TARP recipients.

This new legislation contains 16 different titles, is over 800 pages long, and calls for the completion of dozens of studies and reports and hundreds of new regulations. The information provided herein regarding the effect of the Dodd-Frank Act is intended merely for illustration and is not exhaustive, as the full impact of the legislation on banks and bank holding companies is still being studied and in any event cannot be fully known until the completion of hundreds of new federal agency rulemakings over the next few years. Interested shareholders should refer directly to the Dodd-Frank Act itself for additional information.

The Dodd-Frank Act is one of a number of legislative initiatives that have been proposed in recent months due to the ongoing national and global financial crisis. It is not possible to predict whether any other similar legislation may be adopted that would significantly affect the operations and performance of the Company and the Bank.

*Summary.* The foregoing is a brief summary of certain statutes, rules and regulations affecting the Company and the Bank. It is not intended to be an exhaustive discussion of all the statutes and regulations having an impact on the operations of such entities. Additional bills may be introduced in the future in the United States Congress and state legislatures to alter the structure, regulation and competitive relationships of financial institutions. It cannot be predicted whether and what form any of these proposals will be adopted or the extent to which the business of the Company and the Bank may be affected thereby.

## **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.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (discussed in more detail below under "Recent Developments") has removed many limitations on the Federal Reserve Board's authority to make examinations of banks that are subsidiaries of bank holding companies. Under the Dodd-Frank Act, the Federal Reserve Board will generally be permitted to examine bank holding companies and their subsidiaries, provided that the Federal Reserve Board must rely on reports submitted directly by the institution and examination reports of the appropriate regulators (such as the OCC) to the fullest extent possible; must provide reasonable notice to, and consult with, the appropriate regulators before commencing an examination of a bank holding company subsidiary; and, to the fullest extent possible, must avoid duplication of examination activities, reporting requirements, and requests for information.

*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 Deposit Insurance Fund ("DIF") is maintained for commercial banks and thrifts, 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.

The Dodd-Frank Act has changed the method of calculation for FDIC insurance assessments. Under the current system, the assessment base is domestic deposits minus a few allowable exclusions, such as pass-through reserve balances. Under the Dodd-Frank Act, assessments are to be calculated based on the depository institution's average consolidated total assets, less its average amount of tangible equity. On February 9, 2011, the FDIC published final regulations implementing these changes. In addition to providing for the required change in assessment base, the FDIC has modified or eliminated the assessment adjustments based on unsecured debt, secured liabilities, and brokered deposits; added a new adjustment for holding unsecured debt issued by another insured depository institution; and lowered the initial base assessment rate schedule in order to collect approximately the same amount of revenue under the new base as under the old base, among other changes. Due to the expanded assessment base the new initial base assessment rates have been lowered from prior levels. These final regulations will be effective April 1, 2011.

*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, 2010, 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 have taken broad action since early September, 2008 to address volatility in the U.S. banking system, including the passage of legislation, the provision of other direct and indirect assistance to financial institutions, assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers, implementation of programs by the Federal Reserve Board to provide liquidity to the commercial paper markets and expansion of deposit insurance coverage. 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 Company 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 the Company's Common Stock, are not FDIC insured*

Securities issued by the Company, including the Company's 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. In 2008, the Treasury announced the Capital Purchase Program, which was followed by the Community Development Capital Initiative in 2010. In 2008, the FDIC adopted a Final rule with respect to its Temporary Liquidity Guarantee Program pursuant to which the FDIC guaranteed certain "newly-issued unsecured debt" of banks and certain holding companies and also temporarily guaranteed, on an unlimited basis, noninterest-bearing bank transaction accounts; the unlimited guarantee of noninterest-bearing transaction accounts has now been extended through 2012 by the Dodd-Frank Act. 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, pursuant to the Dodd-Frank Act, the limit on FDIC coverage has been permanently increased to \$250,000. These developments have caused the premiums assessed to the Company by the FDIC to increase.

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 Troubled Asset Relief Program*

- The Company received \$5,000,000 in funding under the Capital Purchase Program ("CPP") in exchange for preferred stock and common stock warrants during 2009, which funding was refinanced into lower-cost Community Development Capital Initiative ("CDCI") funding on September 29, 2010. In addition, on September 29, 2010, the Company also accepted \$12,123,000 in additional CDCI funding, for a total of \$17,123,000 in CDCI funding. Participation in this program constrains the Company's ability to raise dividends 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, possibly by raising capital within the next seven to eight years to keep its dividend costs from increasing to 9% per annum.
- Both the CPP and the CDCI are part of the Troubled Asset Relief Program ("TARP"). The rules that govern the TARP 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 on TARP participants could impede our ability to attract and retain qualified executive officers.
- Our participation in the TARP limits our annual dividend payments to no more than \$.15 per share. Our ability to repurchase our common stock would also be restricted in the event that we failed to make our dividend payments.
- Since the TARP 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.

## **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. 40<sup>th</sup> 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.

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.

On March 7, 2011 an Agreed Order of Dismissal was entered in the litigation as previously disclosed by the Company on Form 8-K filed on March 8, 2011.

#### **ITEM 4. REMOVED AND 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 67 of the Company's Annual Report to Shareholders for the year ended December 31, 2010, is incorporated herein by reference.

#### **ITEM 6. SELECTED FINANCIAL DATA**

In response to this Item, the information contained on pages 7 and 8 of Management's Discussion and Analysis for the year ended December 31, 2010, 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, 2010, is incorporated herein by reference.

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

Not applicable.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

In response to this Item, the information contained on pages 29 through 65 of the Company's Annual Report to Shareholders for the year ended December 31, 2010 is incorporated herein by reference.

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

Not applicable.

#### **ITEM 9A. 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, 2010 that the Company's disclosure controls and procedures were effective. During the quarter ended December 31, 2010, 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, 2010.

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.

CEO and President  
Chief Financial Officer  
March 24, 2011

/s/ Dee Dee Lowery

Executive VP and  
March 24, 2011

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

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 26, 2011, is incorporated herein by reference.

*Code of Ethics*

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

### *Audit Committee*

The information contained under the caption “Committees of the Board of Directors” of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 26, 2011, 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 NASDAQ listing standards and Securities and Exchange Commission 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 26, 2011, is incorporated herein by reference.

As a 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](http://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 26, 2011, is incorporated herein by reference.

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

In response to this Item, the information contained under the caption “Security Ownership of Certain Beneficial Owners and Management” of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 26, 2011, is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

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 26, 2011, 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 26, 2011, is incorporated herein by reference.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

<u>Exhibit Number</u>	<u>Description</u>
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).
3.3	Articles of Amendment Containing Certificate of Designations for the Fixed Rate Cumulative Perpetual Preferred Stock, Series CD
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).
10.1	Exchange Letter Agreement dated September 29, 2010 between The First Bancshares and the United States Department of the Treasury, including the Standard Terms, with respect to the exchange of the Preferred Shares.
10.2	Purchase Letter Agreement dated September 29, 2010 between The First Bancshares and the United States Department of the Treasury, including the Standard Terms, with respect to the issuance of the CDCI Preferred Shares
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).

10.8	The First Bancshares, Inc. 2007 Stock Incentive Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement No. 171996 on Form S-8)
13	The Company's 2010 Annual Report
21	Subsidiaries of the Company
23	Consent of Independent Registered Public Accounting Firm
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
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 24, 2011

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

Date: March 24, 2011

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.

<u>SIGNATURES</u>	<u>CAPACITIES</u>	<u>DATE</u>
<u>/s/ E. Ricky Gibson</u>	Director and Chairman of the Board	March 24, 2011
<u>/s/ Charles R. Lightsey</u>	Director	March 24, 2011
<u>/s/ J. Douglas Seidenburg</u>	Director	March 24, 2011
<u>/s/ Andy Stetelman</u>	Director	March 24, 2011
<u>/s/ David W. Bomboy</u>	Director	March 24, 2011
<u>/s/ Ted E. Parker</u>	Director	March 24, 2011
<u>/s/ Michael W. Chancellor</u>	Director	March 24, 2011
<u>/s/ Fred McMurry</u>	Director	March 24, 2011
<u>/s/ Dennis L. Pierce</u>	Director	March 24, 2011
<u>/s/ Gregory Mitchell</u>	Director	March 24, 2011
<u>/s/ M. Ray (Hoppy) Cole, Jr.</u>	CEO, President and Director (Principal Executive Officer)	March 24, 2011
<u>/s/ Dee Dee Lowery</u>	Executive VP & Chief Financial Officer	March 24, 2011
	(Principal Financial and Accounting Officer)	



**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, 2010 when compared to the years 2009 and 2008. 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 2010.

**Overview**

The First Bancshares, Inc. (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 \$477.6 million in total assets, and \$383.8 million in deposits at December 31, 2009 to approximately \$503.0 million in total assets, and \$396.5 million in deposits at December 31, 2010. Loans net of allowance for loan losses increased from \$314.0 million at December 31, 2009 to approximately \$328.0 at December 31, 2010. The Company increased from \$43.6 million in shareholders' equity at December 31, 2009 to approximately \$57.1 million at December 31, 2010. The First reported net income of \$3,016,000 and \$2,210,000 for the years ended December 31, 2010, and 2009, respectively. For the years ended December 31, 2010 and 2009, the Company reported consolidated net income applicable to common stockholders of \$2,233,000 and \$1,461,000, 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,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Earnings:					
Net interest income	\$ 16,334	\$ 14,390	\$ 16,105	\$ 16,870	\$ 13,242
Provision for loan losses	983	1,206	2,205	1,321	800
Noninterest income	3,895	4,397	4,631	4,575	3,380
Noninterest expense	15,843	15,323	15,998	14,823	11,138
Net income	2,549	1,743	1,849	3,823	3,315
Net income applicable to common stockholders	2,233	1,461	1,849	3,823	3,315
Per common share data:					
Basic net income per Share	\$ .74	\$ .49	\$ .62	\$ 1.28	\$ 1.35
Diluted net income per Share	.74	.49	.61	1.25	1.27
Per share data:					
Basic net income per share	\$ .84	\$ .58	\$ .62	\$ 1.28	\$ 1.35
Diluted net income per share	.84	.58	.61	1.25	1.27
Selected Year End Balances:					
Total assets	\$ 503,045	\$ 477,552	\$ 474,824	\$ 496,056	\$ 417,769
Securities	107,136	114,618	102,303	87,052	91,810
Loans, net of allowance	327,956	314,033	318,300	367,002	284,082
Deposits	396,479	383,754	378,079	386,168	351,722
Stockholders' equity	57,098	43,617	36,568	36,281	32,365

**Results of Operations**

The following is a summary of the results of operations by The First for the years ended December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
	(In thousands)	
Interest income	\$ 23,453	\$ 24,621
Interest expense	<u>6,933</u>	<u>9,966</u>
Net interest income	16,520	14,655
Provision for loan losses	<u>983</u>	<u>1,206</u>
Net interest income after provision for loan losses	<u>15,537</u>	<u>13,449</u>
Other income	3,894	4,396
Other expense	15,405	14,963
Income tax expense	<u>1,010</u>	<u>672</u>
Net income	<u>\$ 3,016</u>	<u>\$ 2,210</u>

The following reconciles the above table to the amounts reflected in the consolidated financial statements of the Company at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(In thousands)	
Net interest income:		
Net interest income of subsidiary bank	\$ 16,520	\$ 14,655
Intercompany eliminations	(186)	(265)
	<u>\$ 16,334</u>	<u>\$ 14,390</u>
Net income:		
Net income of subsidiary bank	\$ 3,016	\$ 2,210
Net loss of the Company, excluding intercompany accounts	(783)	(749)
	<u>\$ 2,233</u>	<u>\$ 1,461</u>

### Consolidated Net Income

The Company reported consolidated net income applicable to common stockholders of approximately \$2,233,000 for the year ended December 31, 2010, compared to a consolidated net income of \$1,461,000 for the year ended December 31, 2009. The increase in income was attributable to an increase in net interest income of \$1.9 million or 13.5%, and a decrease of \$224,000 or 18.5% in provision for loan losses.

### 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 approximately \$16,334,000 for the year ended December 31, 2010, as compared to \$14,390,000 for the year ended December 31, 2009. This increase was the direct result of increased loan volumes and decreased rates paid on interest-bearing liabilities during 2010 as compared to 2009. Average interest-bearing liabilities for the year 2010 were \$395,956,000 compared to \$384,744,000 for the year 2009. At December 31, 2010, the net interest spread, the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.38% compared to 2.82% at December 31, 2009. The net interest margin (which is net interest income divided by average earning assets) was 3.60% for the year 2010 compared to 3.20% for the year 2009. Rates paid on average interest-bearing liabilities decreased from 2.66% for the year 2009 to 1.80% for the year 2010. 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 72.6% of average earning assets for the year 2010 compared to 71.3% for the year 2009.

*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,								
	2010			2009			2008		
	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate
<b>Assets</b>	(Dollars in thousands)								
<b>Earning Assets</b>									
Loans (1)(2)	\$328,950	\$ 20,289	6.17%	\$320,495	\$ 20,674	6.45%	\$349,572	\$ 25,407	7.27%
Securities	106,891	3,121	2.92%	109,422	3,861	3.53%	96,357	4,416	4.58%
Federal funds sold	16,473	21	.13%	17,331	28	.16%	16,885	331	1.96%
Other	859	22	2.56%	1,991	66	3.31%	2,783	98	3.52%
Total earning assets	<u>453,173</u>	<u>23,453</u>	5.18%	<u>449,239</u>	<u>24,629</u>	5.48%	<u>465,597</u>	<u>30,252</u>	6.50%
Cash and due from banks	16,686			9,172			9,940		
Premises and equipment	14,490			14,675			15,538		
Other assets	18,469			13,620			13,256		
Allowance for loan losses	(4,513)			(5,064)			(4,566)		
Total assets	<u>\$498,305</u>			<u>\$481,642</u>			<u>\$499,765</u>		
<b>Liabilities</b>									
Interest-bearing liabilities	\$395,956	\$ 7,119	1.80%	\$384,744	\$ 10,239	2.66%	\$403,017	\$ 14,146	3.51%
Demand deposits (1)	49,203			48,855			56,236		
Other liabilities	9,434			6,366			3,964		
Shareholders' equity	<u>43,712</u>			<u>41,677</u>			<u>36,548</u>		
Total liabilities and shareholders' equity	<u>\$498,305</u>			<u>\$481,642</u>			<u>\$499,765</u>		
Net interest spread			3.38%			2.82%			2.99%
Net yield on interest-earning assets		<u>\$ 16,334</u>	3.60%		<u>\$ 14,390</u>	3.20%		<u>\$ 16,106</u>	3.46%

(1) All loans and deposits were made to borrowers in the United States. Includes nonaccrual loans of \$4,212, \$4,367, and \$3,340, respectively, during the periods presented. Loans include held for sale loans.

(2) Includes loan fees of \$400, \$477, and \$609, 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**

	<u>Year Ended December 31,</u>			<u>Year Ended December 31,</u>		
	<u>2010 versus 2009</u>			<u>2009 versus 2008</u>		
	<u>Increase (decrease) due to</u>			<u>Increase (decrease) due to</u>		
	<u>Volume</u>	<u>Rate</u>	<u>Net</u>	<u>Volume</u>	<u>Rate</u>	<u>Net</u>
	(Dollars in thousands)					
<b>Earning Assets</b>						
Loans	\$ 545	\$ (930)	\$ (385)	\$ (2,113)	\$ (2,622)	\$ (4,735)
Securities	(89)	(651)	(740)	598	(1,153)	(555)
Federal funds sold	(2)	(5)	(7)	9	(312)	(303)
Other short-term investments						
	(37)	(7)	(44)	(28)	(4)	(32)
Total interest income	<u>417</u>	<u>(1,593)</u>	<u>(1,176)</u>	<u>(1,534)</u>	<u>(4,091)</u>	<u>(5,625)</u>
<b>Interest-Bearing Liabilities</b>						
Interest-bearing transaction accounts	992	(1,369)	(377)	618	(792)	(174)
Money market accounts	(50)	(31)	(81)	(242)	(108)	(350)
Savings deposits	(5)	(8)	(13)	(18)	(58)	(76)
Time deposits	(671)	(1,590)	(2,261)	(566)	(2,058)	(2,624)
Borrowed funds	(172)	(216)	(388)	(471)	(212)	(683)
Total interest expense	<u>94</u>	<u>(3,214)</u>	<u>(3,120)</u>	<u>(679)</u>	<u>(3,228)</u>	<u>(3,907)</u>
Net interest income	<u>\$ 323</u>	<u>\$ 1,621</u>	<u>\$ 1,944</u>	<u>\$ (855)</u>	<u>\$ (863)</u>	<u>\$ (1,718)</u>

*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, 2008, 2009, and 2010.

December 31, 2008					
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Nonsensitive	Total
	(Dollars in thousands)				
<b>Assets</b>					
Earning Assets:					
Loans	\$ 81,230	\$ 57,092	\$ 138,322	\$ 184,762	\$ 323,084
Securities (2)	14,487	14,112	28,599	73,704	102,303
	13,359	2,762	16,121	-	16,121
Funds sold and other	109,076	73,966	183,042	258,466	441,508
Total earning assets					
<b>Liabilities</b>					
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 earning 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 or Nonsensitive	Total
	(Dollars in thousands)				
<b>Assets</b>					
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
<b>Liabilities</b>					
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%	



**December 31, 2010**

	<b>Within Three Months</b>	<b>After Three Through Twelve Months</b>	<b>Within One Year</b>	<b>Greater Than One Year or Nonsensitive</b>	<b>Total</b>
	(Dollars in thousands)				
<b>Assets</b>					
Earning Assets:					
Loans	\$ 62,439	\$ 62,095	\$ 124,534	\$ 208,039	\$ 332,573
Securities (2)	12,011	7,592	19,603	87,533	107,136
Funds sold and other	9,083	12,443	21,526	-	21,526
Total earning assets	<u>83,533</u>	<u>82,130</u>	<u>165,663</u>	<u>295,572</u>	<u>461,235</u>
<b>Liabilities</b>					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	\$ -	\$ 149,551	\$ 149,551	\$ -	\$ 149,551
Money market accounts	18,853	-	18,853	-	18,853
Savings deposits (1)	-	14,043	14,043	-	14,043
Time deposits	34,437	72,886	107,323	58,398	165,721
Total interest-bearing deposits	<u>53,290</u>	<u>236,480</u>	<u>289,770</u>	<u>58,398</u>	<u>348,168</u>
Borrowed funds (3)	-	3,075	3,075	27,032	30,107
Total interest-bearing liabilities	<u>53,290</u>	<u>239,555</u>	<u>292,845</u>	<u>85,430</u>	<u>378,275</u>
Interest-sensitivity gap per period	<u>\$ 30,243</u>	<u>\$ (157,425)</u>	<u>\$ (127,182)</u>	<u>\$ 210,142</u>	<u>\$ 82,960</u>
Cumulative gap at December 31, 2010	<u>\$ 30,243</u>	<u>\$ (127,182)</u>	<u>\$ (127,182)</u>	<u>\$ 82,960</u>	<u>\$ 82,960</u>
Ratio of cumulative gap to total earning assets at December 31, 2010	6.6%	(27.6%)	(27.6%)	18.0%	

- (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, 2010, 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, 2010, the consolidated allowance for loan losses amounted to approximately \$4,617,000, or 1.39% of outstanding loans. At December 31, 2009, the allowance for loan losses amounted to approximately \$4,762,000, which was 1.49% of outstanding loans. The Company's provision for loan losses was \$983,000 for the year ended December 31, 2010, compared to \$1,206,000 for the year ended December 31, 2009.

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, 2010 and 2009.

<b>December 31, 2010</b>			
<b>(In thousands)</b>			
	<u>Past Due 30 to 89 Days</u>	<u>Past Due 90 days or more and still accruing</u>	<u>Non-Accrual</u>
Real Estate-construction	\$ 593	\$ 1	\$ 1,433
Real Estate-mortgage	3,673	153	893
Real Estate-non farm nonresidential	438	737	1,452
Commercial	740	144	386
Consumer	262	36	48
Total	<u>\$ 5,706</u>	<u>\$ 1,071</u>	<u>\$ 4,212</u>

  

<b>December 31, 2009</b>			
<b>(In thousands)</b>			
	<u>Past Due 30 to 89 Days</u>	<u>Past Due 90 days or More and still accruing</u>	<u>Non-Accrual</u>
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	<u>\$ 10,361</u>	<u>\$ 1,447</u>	<u>\$ 4,367</u>

Total nonaccrual loans at December 31, 2010 amounted to \$4.2 million which was a decrease of \$.2 million over the December 31, 2009 amount of \$4.4 million. Management believes these relationships were adequately reserved at December 31, 2010. Restructured loans not reported as past due or nonaccrual at December 31, 2010 amounted to \$2.6 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, 2010 and December 31, 2009, the subsidiary bank had potential problem loans of \$30,300,000 and \$27,700,000, respectively. This represents an increase of \$2,600,000.

# Consolidated Allowance For Loan Losses

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Average loans outstanding	\$ 328,950	\$ 320,495	\$ 349,572	\$ 338,368	\$ 237,578
Loans outstanding at year end	\$ 332,573	\$ 318,795	\$ 323,084	\$ 371,223	\$ 287,875
Total nonaccrual loans	\$ 4,212	\$ 4,367	\$ 3,340	\$ 2,429	\$ 1,789
Beginning balance of allowance	\$ 4,762	\$ 4,785	\$ 4,221	\$ 3,793	\$ 2,367
Loans charged-off	(1,370)	(1,396)	(1,784)	(950)	(186)
Total loans charged-off	(1,370)	(1,396)	(1,784)	(950)	(186)
Total recoveries	242	167	143	57	107
Net loans charged-off	(1,128)	(1,229)	(1,641)	(893)	(79)
Acquisition	-	-	-	-	705
Provision for loan losses	983	1,206	2,205	1,321	800
Balance at year end	\$ 4,617	\$ 4,762	\$ 4,785	\$ 4,221	\$ 3,793
Net charge-offs to average loans	.34%	.38%	.47%	.26%	.03%
Allowance as percent of total loans	1.39%	1.49%	1.48%	1.14%	1.32%
Nonperforming loans as a percentage of total loans	1.27%	1.37%	1.03%	.65%	.62%
Allowance as a multiple of nonaccrual loans	1.1X	1.1X	1.4X	1.7X	2.1X

At December 31, 2010, the components of the allowance for loan losses consisted of the following:

	Allowance (In thousands)
Allocated:	
Impaired loans	\$ 738
Graded loans	3,879
	<u>\$ 4,617</u>

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 2009 and 2010.

### Analysis of the Allowance for Loan Losses

	Years Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Balance at beginning of year	\$ 4,762	\$ 4,785
Charge-offs:		
Real Estate-construction	312	296
Real Estate-farmland	-	2
Real Estate-mortgage	460	443
Real Estate-nonfarm residential	43	-
Commercial	367	389
Consumer	188	266
Total	1,370	1,396
Recoveries:		
Real Estate-construction	14	45
Real Estate-mortgage	51	4
Commercial	71	3
Consumer	106	115
Total	242	167
Net charge-off	1,128	1,229
Provision for loan losses	983	1,206
Balance at end of year	<u>\$ 4,617</u>	<u>\$ 4,762</u>

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, 2010 and 2009.

### Allocation of the Allowance for Loan Losses

	December 31, 2010	
	(Dollars in thousands)	
	Amount	% of loans in each category to total loans
Commercial Non Real Estate	\$ 757	15.90%
Commercial Real Estate	2,817	62.20%
Consumer Real Estate	902	18.04%
Consumer	140	2.90%
Unallocated	1	.96%
Total	<u>\$ 4,617</u>	<u>100%</u>

	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	<u>\$ 4,762</u>	<u>100%</u>

## 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 \$502,000 or 11.4% as compared to \$4,397,000 for the year ended December 31, 2009, to \$3,895,000 for the year ended December 31, 2010. The deposit activity fees were \$2,374,000 for 2010 compared to \$2,477,000 for 2009. Other service charges decreased by \$179,000 or 9.6% from \$1,876,000 for the year ended December 31, 2009, to \$1,697,000 for the year ended December 31, 2010. Impairment losses on investment securities were \$472,000 for 2010 as compared to \$111,000 for 2009.

Noninterest expense increased from \$15.3 million for the year ended December 31, 2009 to \$15.8 million for the year ended December 31, 2010. The Company experienced slight increases in most expense categories. The largest increase was in salaries and employee benefits, which increased by \$292,000 in 2010 as compared to 2009.

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

## Noninterest Expense

	Years ended December 31,		
	2010	2009	2008
		(In thousands )	
Salaries and employee benefits	\$ 8,693	\$ 8,401	\$ 9,455
Occupancy	1,052	1,071	1,146
Equipment	976	900	1,055
Marketing and public relations	312	329	250
Data processing	12	30	20
Supplies and printing	284	278	352
Telephone	271	249	260
Correspondent services	118	110	110
Deposit and other insurance	1,118	1,019	474
Professional and consulting fees	924	830	845
Postage	148	173	196
ATM fees	225	217	206
Other	1,710	1,716	1,629
Total	<u>\$ 15,843</u>	<u>\$ 15,323</u>	<u>\$ 15,998</u>

## Income Tax Expense

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

## Analysis of Financial Condition

### Earning Assets

*Loans.* Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At December 31, 2010 and 2009, respectively, loans accounted for 73% and 71% 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 \$329.0 million during 2010, as compared to \$320.5 million during 2009, and \$349.6 million during 2008.

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

**Composition of Loan Portfolio**

	December 31,					
	2010		2009		2008	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
	(Dollars in Thousands)					
Mortgage loans held for sale	\$ 2,938	0.9%	\$ 3,692	1.2%	\$ 3,113	1.0%
Commercial, financial and agricultural	48,427	14.6%	43,229	13.6%	37,861	11.7%
Real Estate:						
Mortgage-commercial	109,073	32.8%	87,492	27.4%	84,181	26.1%
Mortgage-residential	102,425	30.8%	102,738	32.2%	100,603	31.1%
Construction	58,962	17.7%	68,695	21.5%	81,178	25.1%
Consumer and other	10,748	3.2%	12,949	4.1%	16,149	5.0%
Total loans	332,573	<u>100%</u>	318,795	<u>100%</u>	323,085	<u>100%</u>
Allowance for loan losses	(4,617)		(4,762)		(4,785)	
Net loans	<u>\$ 327,956</u>		<u>\$ 314,033</u>		<u>\$ 318,300</u>	

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, 2010.

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

	<b>December 31, 2010</b>			
	<b>One Year or Less</b>	<b>Over One Year Through Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
	<b>(Dollars in thousands)</b>			
Commercial, financial and agricultural	\$ 20,888	\$ 25,223	\$ 2,316	\$ 48,427
Real estate – construction	58,962	-	-	58,962
	<u>\$ 79,850</u>	<u>\$ 25,223</u>	<u>\$ 2,316</u>	<u>\$ 107,389</u>
Loans maturing after one year with:				
Fixed interest rates				\$ 22,170
Floating interest rates				5,369
				<u>\$ 27,539</u>

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 \$106.9 million in 2010, as compared to \$109.4 million in 2009 and \$96.4 million in 2008. This represents 23.6%, 24.4%, and 20.7% of the average earning assets for the years ended December 31, 2010, 2009, and 2008, respectively. At December 31, 2010, investment securities were \$107.1 million and represented 23.2% 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, municipalities, and corporate obligations with maturities up to five years.

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

**Securities Portfolio**

	<b>2010</b>	<b>December 31 2009</b>	<b>2008</b>
		<b>(In thousands)</b>	
Available-for-sale			
U. S. Government agencies	\$ 41,173	\$ 59,519	\$ 64,814
States and municipal subdivisions	54,673	41,982	23,093
Corporate obligations	7,702	9,772	10,813
Mutual funds	986	958	959
Total available-for-sale	<u>104,534</u>	<u>112,231</u>	<u>99,679</u>
Held-to-maturity			
U.S. Government agencies	3	3	12
Total	<u>\$ 104,537</u>	<u>\$ 112,234</u>	<u>\$ 99,691</u>



The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2010.

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

(\$ in thousands)	December 31, 2010							
	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)	1,023	4.90%	19,827	1.41%	2,005	.98%	-	-
States and municipal subdivisions	7,504	3.28%	31,478	3.55%	10,854	5.28%	4,837	6.02%
Corporate obligations and other	2,002	1.19%	2,008	.45%	484	4.99%	3,208	2.17%
Total investment securities available-for-sale	<u>\$ 10,529</u>		<u>\$ 53,313</u>		<u>\$ 13,343</u>		<u>\$ 8,045</u>	

(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 2.59%.

(3) Excludes mortgage-backed securities totaling \$18.3 million with a yield of 4.30% and mutual funds of \$1.0 million.

*Short-Term Investments.* Short-term investments, consisting of Federal Funds Sold, averaged \$16.5 million in 2010, \$17.3 million in 2009, and \$16.9 million in 2008. At December 31, 2010, and December 31, 2009, short-term investments totaled \$9,083,000 and \$7,575,000, 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 decreased \$14.7 million, or 3.6% in 2009. Average total deposits increased \$18.0 million, or 4.6% in 2010. At December 31, 2010, total deposits were \$396.5 million, compared to \$383.8 million a year earlier, an increase of \$12.7 million, or 3.3%.

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

(\$ in thousands)	December 31,					
	2010		2009		2008	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Noninterest-bearing accounts	\$ 48,311	12.2%	\$ 48,527	12.6%	\$ 57,594	15.2%
NOW accounts	149,551	37.7%	122,363	31.9%	86,795	22.9%
Money market accounts	18,853	4.8%	25,110	6.5%	27,836	7.4%
Savings accounts	14,043	3.5%	15,712	4.1%	18,419	4.9%
Time deposits less than \$100,000	65,393	16.5%	82,116	21.4%	99,491	26.3%
Time deposits of \$100,000 or over	100,328	25.3%	89,926	23.5%	87,944	23.3%
Total deposits	<u>\$396,479</u>	<u>100%</u>	<u>\$383,754</u>	<u>100%</u>	<u>\$378,079</u>	<u>100%</u>

The Company's loan-to-deposit ratio was 83% at December 31, 2010 and 82% at December 31, 2009. The loan-to-deposit ratio averaged 81% during 2010. 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 \$296.2 million at December 31, 2010 and \$293.8 million at December 31, 2009. 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, 2010, 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, 2010	\$ 23,811	\$ 43,426	\$ 33,091	\$ 100,328

**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, 2010, advances from the FHLB totaled \$15.1 million compared to \$17.0 million at December 31, 2009. 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, 2010 and December 31, 2009.

Reverse Repurchase Agreements consist of three \$5,000,000 agreements. These agreements are secured by securities with a fair value of \$18,193,000 at December 31, 2010 and \$17,444,000 at December 31, 2009. 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, 2010, was \$57.1 million, an increase of \$13.5 million or approximately 30.9%, compared with shareholders' equity of \$43.6 million as of December 31, 2009.

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, 2010 and 2009.

### Analysis of Capital

Capital Ratios	Adequately Capitalized	Well Capitalized	The Company December 31,		Subsidiary Bank December 31,	
			2010	2009	2010	2009
Leverage	4.0%	5.0%	13.1%	10.8%	10.7%	10.7%
Risk-based capital:						
Tier 1	4.0%	6.0%	18.4%	15.3%	15.0%	15.1%
Total	8.0%	10.0%	19.6%	16.5%	16.2%	16.3%

## Ratios

	2010	2009	2008
Return on assets (net income applicable to common stockholders divided by average total assets)	.45%	.30%	.37%
Return on equity (net income applicable to common stockholders divided by average equity)	5.1%	3.5%	5.1%
Dividend payout ratio (dividends per share divided by net income per common share)	20.3%	-	36.3%
Equity to asset ratio (average equity divided by average total assets)	8.8%	8.7%	7.3%

## 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 \$16.5 million during the year ended December 31, 2010 and totaled \$9.1 million at December 31, 2010. 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, 2010, advances available totaled approximately \$131.4 million of which \$45.1 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. However, with the passage of the Dodd-Frank Act, this increase in the basic coverage limit has been made permanent.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program (“TLGP”) on October 14, 2008. The TLGP included the Transaction Account Guarantee Program (“TAGP”), which provided 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., as of December 31, 2010 and 2009, 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., as of December 31, 2010 and 2009, and the consolidated results of its operations and its 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 30, 2011

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Cash and due from banks	\$ 12,450,296	\$ 8,119,637
Interest-bearing deposits with banks	12,443,412	296,236
Federal funds sold	9,083,000	7,575,000
Total cash and cash equivalents	33,976,708	15,990,873
Held-to-maturity securities (fair value of \$2,763 in 2010 and \$3,047 in 2009)	2,640	2,983
Available-for-sale securities	104,534,242	112,231,024
Other securities	2,598,950	2,383,650
Total securities	107,135,832	114,617,657
Loans held for sale	2,937,834	3,692,316
Loans, net of allowance for loan losses of \$4,617,080 in 2010 and \$4,762,069 in 2009	325,017,844	310,340,494
Interest receivable	2,022,851	2,318,207
Premises and equipment	14,993,926	14,279,291
Cash surrender value of life insurance	6,083,567	5,857,074
Goodwill	702,213	702,213
Other assets	10,174,000	9,754,144
Total assets	<u>\$ 503,044,775</u>	<u>\$ 477,552,269</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 48,312,231	\$ 48,527,218
Interest-bearing	348,167,188	335,226,686
Total deposits	396,479,419	383,753,904
Interest payable	410,919	672,355
Borrowed funds	30,106,895	32,037,082
Subordinated debentures	10,310,000	10,310,000
Other liabilities	8,639,457	7,162,262
Total liabilities	445,946,690	433,935,603
Stockholders' Equity:		
Preferred stock, no par value, \$1,000 per share liquidation, 10,000,000 shares authorized; 17,123 and 5,000 shares issued and outstanding in 2010 and 2009, respectively	16,938,571	4,773,010
Common stock, par value \$1 per share: 10,000,000 shares authorized; 3,058,716 and 3,046,363 shares issued and outstanding in 2010 and 2009, respectively	3,058,716	3,046,363
Additional paid-in capital	23,418,761	23,418,504
Retained earnings	14,722,496	12,943,540
Accumulated other comprehensive loss	(576,814)	(101,106)
Treasury stock, at cost	(463,645)	(463,645)
Total stockholders' equity	57,098,085	43,616,666
Total liabilities and stockholders' equity	<u>\$503,044,775</u>	<u>\$ 477,552,269</u>

The accompanying notes are an integral part of these statements.

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 20,289,150	\$ 20,674,170
Interest and dividends on securities:		
Taxable interest and dividends	1,891,322	2,878,125
Tax-exempt interest	1,230,024	983,326
Interest on federal funds sold	21,339	28,143
Interest on deposits in banks	21,577	65,993
Total interest income	<u>23,453,412</u>	<u>24,629,757</u>
<b>INTEREST EXPENSE</b>		
Interest on time deposits of \$100,000 or more	1,814,201	2,246,314
Interest on other deposits	3,930,024	6,230,761
Interest on borrowed funds	1,375,067	1,762,639
Total interest expense	<u>7,119,292</u>	<u>10,239,714</u>
Net interest income	16,334,120	14,390,043
Provision for loan losses	982,663	1,206,343
Net interest income after provision for loan losses	<u>15,351,457</u>	<u>13,183,700</u>
<b>OTHER INCOME</b>		
Service charges on deposit accounts	2,373,684	2,476,904
Other service charges and fees	1,697,123	1,876,477
Bank owned life insurance income	226,493	197,177
Loss on sale of other real estate	(20,075)	(20,831)
Other	89,949	(21,300)
Impairment loss on securities:		
Total other-than-temporary impairment loss	(1,713,525)	(689,579)
Less: Portion of loss recognized in other comprehensive income	1,241,714	578,151
Net impairment loss recognized in earnings	<u>(471,811)</u>	<u>(111,428)</u>
Total other income	<u>3,895,363</u>	<u>4,396,999</u>
<b>OTHER EXPENSE</b>		
Salaries	7,268,974	7,098,129
Employee benefits	1,423,630	1,302,807
Occupancy	1,051,537	1,082,818
Furniture and equipment	975,791	1,104,138
Supplies and printing	284,352	278,376
Professional and consulting fees	923,626	830,387
Marketing and public relations	311,533	328,690
FDIC and OCC assessments	1,066,963	968,524
Other	2,536,472	2,329,322
Total other expense	<u>15,842,878</u>	<u>15,323,191</u>



**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

Continued:

	<u>2010</u>	<u>2009</u>
Income before income taxes	3,403,942	2,257,508
Income taxes	<u>855,198</u>	<u>514,111</u>
Net income	2,548,744	1,743,397
Preferred dividends	273,629	225,694
Preferred stock accretion	<u>42,561</u>	<u>56,748</u>
Net income applicable to common stockholders	<u>\$ 2,232,554</u>	<u>\$ 1,460,955</u>
Net income per share:		
Basic	\$ .84	\$ .58
Diluted	.84	.58
Net income applicable to common stockholders:		
Basic	\$ .74	\$ .49
Diluted	.74	.49

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, 2010 AND 2009**

	Compre- hensive Income	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2009		\$3,016,695	-	-	\$22,941,924	\$11,482,585	\$ (409,473)	\$ (463,645)	\$36,568,086
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	<u>(12,063)</u>	-	-	-	-	-	(12,063)	-	(12,063)
Comprehensive Income	<u><u>\$2,051,764</u></u>								
Issuance of Preferred stock and warrants		-	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)

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

Continued:

	Compre- hensive Income	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Exercise of stock Options		29,668	-	-	192,842	-	-	-	222,510
Balance, December 31, 2009		<u>3,046,363</u>	<u>4,773,010</u>	<u>283,738</u>	<u>23,134,766</u>	<u>12,943,540</u>	<u>(101,106)</u>	<u>(463,645)</u>	<u>43,616,666</u>
Comprehensive Income:									
Net income 2010	\$2,548,744	-	-	-	-	2,548,744	-	-	2,548,744
Non-credit related impairment loss on investment securities, net of tax	(819,528)	-	-	-	-	-	(819,528)	-	(819,528)
Net change in unrealized gain on available- for-sale securities, net of tax	335,313	-	-	-	-	-	335,313	-	335,313
Net change in unrealized loss on loans held for sale, net of tax	<u>8,507</u>	-	-	-	-	-	8,507	-	8,507
Comprehensive Income	<u><u>\$2,073,036</u></u>								
Issuance of preferred stock		-	12,123,000	-	-	-	-	-	12,123,000

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

Continued:

	Common Stock	Preferred Stock	Stock Warrants	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Accretion of Preferred stock discount	-	42,561	-	-	(42,561)	-	-	-
Dividends on preferred stock	-	-	-	-	(273,629)	-	-	(273,629)
Cash dividend declared, \$.15 per common share					(453,598)			(453,598)
Grant of restricted Stock	12,353	-	-	(12,353)	-	-	-	-
Compensation cost on restricted stock	-	-	-	12,610	-	-	-	12,610
Balance, December 31, 2010	<u>\$3,058,716</u>	<u>\$16,938,571</u>	<u>\$283,738</u>	<u>\$23,135,023</u>	<u>\$14,722,496</u>	<u>\$(576,814)</u>	<u>\$(463,645)</u>	<u>\$57,098,085</u>

The accompanying notes are an integral part of these statements.

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b><i>CASH FLOWS FROM OPERATING ACTIVITIES</i></b>		
Net income	\$ 2,548,744	\$ 1,743,397
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	869,736	970,262
FHLB Stock dividends	(4,100)	(11,300)
Provision for loan losses	982,663	1,206,343
Impairment loss on securities	471,811	111,428
Gain on sale/call of securities	(50,715)	-
Deferred income taxes	(84,605)	(265,607)
Restricted stock expense	12,610	-
Increase in cash value of life insurance	(226,493)	(197,177)
Securities, amortization and accretion, net	271,206	336,253
Loss on sale/writedown of other real estate	351,392	268,062
Changes in:		
Loans held for sale	767,370	(598,021)
Interest receivable	295,356	286,378
Other assets	2,640,435	(2,342,018)
Interest payable	(261,436)	(177,518)
Other liabilities	1,464,758	4,139,940
Net cash provided by operating activities	<u>10,048,732</u>	<u>5,470,422</u>
<b><i>CASH FLOWS FROM INVESTING ACTIVITIES</i></b>		
Purchases of available-for-sale securities	(51,246,717)	(64,793,467)
Purchases of other securities	(595,500)	(110,600)
Proceeds from maturities and calls of available-for-sale securities	56,508,885	52,288,321
Proceeds from sales of securities available-for-sale	1,009,000	-
Proceeds from redemption of other securities	384,300	350,150
(Increase) decrease in loans	(18,956,156)	818,581
Net (additions) disposals to premises and equipment	(1,370,243)	245,086
Net cash used in investing activities	<u>(14,266,431)</u>	<u>(11,201,929)</u>
<b><i>CASH FLOWS FROM FINANCING ACTIVITIES</i></b>		
Increase in deposits	12,725,515	5,675,287
Proceeds from borrowed funds	8,500,000	3,000,000
Repayment of borrowed funds	(10,430,187)	(16,990,192)
Exercise of stock options	-	222,510
Dividends paid on common stock	(452,980)	-
Dividends paid on preferred stock	(261,814)	(193,750)
Proceeds from issuance of preferred stock and warrant	12,123,000	5,000,000
Net cash provided by (used in) financing activities	<u>22,203,534</u>	<u>(3,286,145)</u>

The accompanying notes are an integral part of these statements.

**THE FIRST BANCSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Continued:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Net increase (decrease) in cash and cash equivalents	17,985,835	(9,017,652)
Cash and cash equivalents at beginning of year	15,990,873	25,008,525
Cash and cash equivalents at end of year	<u><u>\$ 33,976,708</u></u>	<u><u>\$ 15,990,873</u></u>
Supplemental disclosures:		
<i>Cash paid during the year for :</i>		
Interest	\$ 7,380,728	\$ 10,417,232
Income taxes	1,366,854	876,436
<i>Non-cash activities:</i>		
Transfers of loans to other real estate	3,296,143	2,821,539
Issuance of restricted stock grants	12,353	-

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 the Bank 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, 2010, the required reserve balance on deposit with the Federal Reserve Bank was approximately \$2,936,000.

**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, 2010 and 2009.

### *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 other income 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 and 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, 2010 and 2009, other real estate totaled \$3,995,017 and \$2,902,997, 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, 2010.

(Dollars in thousands)	Goodwill	Core deposit intangible
Balance, January 1, 2010	\$ 702	\$ 468
Amortization	-	69
Balance, December 31, 2010	<u>\$ 702</u>	<u>\$ 399</u>

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 2011 through 2015.

(Dollars in thousands)	Full year expected amortization
<u>Year</u>	
2011	\$69
2012	69
2013	69
2014	69
2015	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 accounts for stock based compensation in accordance with ASC Topic 718, *Compensation - Stock Compensation*. Compensation cost is recognized for all stock options granted based on the weighted average fair value stock price at the grant date.

## 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, 2010 and 2009, 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, 2010 and 2009, was \$261,727 and \$246,306, 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, 2010			For the Year Ended December 31, 2009		
	Net Income (Numerator)	Shares (Denominator)	Per Share Amount	Net Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic per common share	\$ 2,232,554	3,019,869	<u>\$ .74</u>	\$ 1,460,955	3,011,430	<u>\$ .49</u>
Effect of dilutive shares: Restricted Stock		2,058			-	
	<u>\$ 2,232,554</u>	<u>3,021,927</u>	<u>\$ .74</u>	<u>\$ 1,460,955</u>	<u>3,011,430</u>	<u>\$ .49</u>

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

#### 18. Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform with the classifications used in 2010. These reclassifications did not impact the Company's consolidated financial condition or results of operations.

#### 19. Accounting Pronouncements

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures About Fair Value Measurements ." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the consolidated balance sheets and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for the Company on January 1, 2010. (See Note Q – Fair Values of Assets and Liabilities)

ASU No. 2010-20, “ *Receivables (Topic 310)—Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.*” ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users’ evaluation of (i) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company’s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. (See Note D – Loans.) Disclosures that relate to activity during a reporting period will be required for the Company’s financial statements that include periods beginning on or after January 1, 2011. ASU 2011-01, “*Receivables (Topic 310)—Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20,*” temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of a proposed accounting standards update related to troubled debt restructurings, which is currently expected to be effective for periods ending after June 15, 2011.

ASU No. 2010-28, “*Intangibles—Goodwill and Other (Topic 350)—When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.*” ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 became effective for the Company on January 1, 2011 and is not expected have a significant impact on the Company’s consolidated financial statements.

ASU No. 2010-29, “*Business Combinations (Topic 805)—Disclosure of Supplementary Pro Forma Information for Business Combinations.*” ASU 2010-29 provides clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required by Topic 805 when comparative financial statements are presented. ASU 2010-29 also requires entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. ASU 2010-29 is effective for the Company prospectively for business combinations occurring after December 31, 2010.

## 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, 2010 and 2009, follows:

December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Available-for-sale securities:</i>				
Obligations of U.S. Government agencies	\$ 22,886,882	\$ 169,384	\$ 201,664	\$ 22,854,602
Tax-exempt and taxable obligations of states and municipal subdivisions	53,895,368	998,689	221,155	54,672,902
Mortgage-backed securities	17,638,563	727,725	47,866	18,318,422
Corporate obligations	9,726,518	12,163	2,036,387	7,702,294
Other	1,255,483	-	269,461	986,022
	<u>\$ 105,402,814</u>	<u>\$ 1,907,961</u>	<u>\$ 2,776,533</u>	<u>\$ 104,534,242</u>
<i>Held-to-maturity securities:</i>				
Mortgage-backed securities	<u>\$ 2,640</u>	<u>\$ 123</u>	<u>\$ -</u>	<u>\$ 2,763</u>
December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>Available-for-sale securities:</i>				
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
	<u>\$ 112,365,941</u>	<u>\$ 2,389,740</u>	<u>\$ 2,524,657</u>	<u>\$ 112,231,024</u>
<i>Held-to-maturity securities:</i>				
Mortgage-backed securities	<u>\$ 2,983</u>	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ 3,047</u>

The scheduled maturities of securities at December 31, 2010, were as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due less than one year	10,476,227	10,530,199	-	-
Due after one year through five years	52,717,729	53,311,717	-	-
Due after five years through ten years	13,200,070	13,343,290	-	-
Due after ten years	11,370,225	9,030,614	-	-
Mortgage-backed securities	17,638,563	18,318,422	2,640	2,763
	<u>\$ 105,402,814</u>	<u>\$104,534,242</u>	<u>\$ 2,640</u>	<u>\$ 2,763</u>

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

A gain of \$50,715 was realized from the sale or call of available-for-sale securities in 2010. No gains or losses resulting from the sale of available-for-sale securities were realized in 2009. An other-than-temporary impairment loss of \$471,811 was recognized for the year ended 2010 and \$111,428 for the year ended 2009.

Securities with a carrying value of \$63,692,752 and \$84,231,952 at December 31, 2010 and 2009, 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, 2010 and 2009, were as follows:

	2010					
	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	\$13,340,460	\$ 201,664	\$ -	\$ -	\$13,340,460	\$ 201,664
Tax-exempt and tax-able obligations of states and municipal subdivisions	9,144,237	204,952	257,160	16,203	9,401,397	221,155
Mortgage-backed securities	1,708,389	3,331	310,610	44,535	2,018,999	47,866
Corporate obligations	-	-	3,199,650	2,036,387	3,199,650	2,036,387
Other	-	-	986,022	269,461	986,022	269,461
	<u>\$24,193,086</u>	<u>\$ 409,947</u>	<u>\$ 4,753,442</u>	<u>\$ 2,366,586</u>	<u>\$28,946,528</u>	<u>\$ 2,776,533</u>

  

	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 tax-able 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
	<u>\$13,433,861</u>	<u>\$ 530,094</u>	<u>\$ 5,181,487</u>	<u>\$ 1,994,563</u>	<u>\$18,615,348</u>	<u>\$ 2,524,657</u>

Approximately 26.1% of the number of securities in the investment portfolio at December 31, 2010, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(In thousands)	
Commercial, financial and agricultural	\$ 48,427	\$ 43,229
Real estate – construction	58,962	68,695
Real estate – mortgage	211,499	190,229
Installment loans to individuals	10,589	12,812
Overdrafts	158	137
	<u>329,635</u>	<u>315,102</u>
Allowance for loan losses	(4,617)	(4,762)
	<u>\$ 325,018</u>	<u>\$ 310,340</u>

Transactions in the allowance for loan losses for the years ended December 31, 2010 and 2009, were as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 4,762,069	\$ 4,784,919
Additions:		
Provision for loan losses charged to operations	982,663	1,206,343
Recoveries	242,002	166,904
	<u>5,986,734</u>	<u>6,158,166</u>
Deductions:		
Loans charged off	1,369,654	1,396,097
Balance at end of year	<u>\$ 4,617,080</u>	<u>\$ 4,762,069</u>

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2010, the Company had \$2.6 million of commercial loans and \$2.1 million of 1-4 family real estate - mortgage loans that were modified in troubled debt restructurings and impaired. Included in these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of \$0.9 million of 1-4 family real estate - mortgage loans at December 31, 2010.

The following table represents the Company's impaired loans at December 31, 2010 and 2009. This table excludes performing troubled debt restructurings.

	<u>2010</u>	<u>2009</u>
	(In thousands)	
Impaired Loans:		
Impaired loans without a valuation allowance	\$ 2,406	\$ 12,295
Impaired loans with a valuation allowance	2,123	8,314
Total impaired loans	<u>\$ 4,529</u>	<u>\$ 20,609</u>
Allowance for loan losses on impaired loans at year end	738	2,004
Total nonaccrual loans	4,212	4,367
Past due 90 days or more and still accruing	1,071	1,447
Average investment in impaired loans	14,486	19,114
Interest paid on impaired loans	208	1,297



The following table provides the ending balances in the Company's loans and allowance for loan losses, broken down by portfolio segment as of December 31, 2010. The table also provides additional detail as to the amount of our loans and allowance that correspond to individual versus collective impairment evaluation. The impairment evaluation corresponds to the Company's systematic methodology for estimating its Allowance for Loan Losses.

	<u>Real Estate</u>	<u>Installment and Other</u>	<u>Commercial, Financial and Agriculture</u>	<u>Total</u>
	(In thousands)			
Loans				
Individually evaluated	\$ 4,091	\$ 48	\$ 390	\$ 4,529
Collectively evaluated	<u>266,504</u>	<u>9,083</u>	<u>49,519</u>	<u>325,106</u>
Total	<u>\$ 270,595</u>	<u>\$ 9,131</u>	<u>\$ 49,909</u>	<u>\$329,635</u>
Allowance for Loan Losses				
Individually evaluated	\$ 464	\$ 10	\$ 264	\$ 738
Collectively evaluated	<u>3,254</u>	<u>132</u>	<u>493</u>	<u>3,879</u>
Total	<u>\$ 3,718</u>	<u>\$ 142</u>	<u>\$ 757</u>	<u>\$ 4,617</u>

The amount of interest income that would have been recognized on impaired loans using the cash-basis would have been \$158,000 for the period ended December 31, 2010. The Company had no loan commitments to borrowers in non-accrual status at December 31, 2010 and 2009.

The following table provides additional detail of impaired loans broken out according to class as of December 31, 2010. The recorded investment included in the following table represents customer balances net of any partial charge-offs recognized on the loans, net of any deferred fees and costs. As nearly all of our impaired loans at December 31, 2010 are on nonaccrual status, recorded investment excludes any insignificant amount of accrued interest receivable on loans 90-days or more past due and still accruing. The unpaid balance represents the recorded balance prior to any partial charge-offs.

	<u>Recorded Investment</u>	<u>Unpaid Balance</u>	<u>Related Allowance</u> (In thousands)	<u>Average Recorded Investment YTD</u>	<u>Interest Income Recognized YTD</u>
<b>Impaired loans with no related allowance:</b>					
Commercial installment	\$ 12	\$ 12	\$ -	\$ 387	\$ 1
Commercial real estate	2,230	2,230	-	7,884	72
Consumer real estate	147	149	-	2,185	8
Consumer installment	<u>15</u>	<u>15</u>	<u>-</u>	<u>183</u>	<u>1</u>
Total	\$ 2,404	\$ 2,406	\$ -	\$ 10,639	\$ 82
<b>Impaired loans with a related allowance:</b>					
Commercial installment	\$ 113	\$ 377	\$ 264	\$ 481	\$ 17
Commercial real estate	966	1,370	401	2,421	89
Consumer real estate	280	343	63	796	20
Consumer installment	<u>23</u>	<u>33</u>	<u>10</u>	<u>149</u>	<u>-</u>
Total	\$ 1,382	\$ 2,123	\$ 738	\$ 3,847	\$ 126
<b>Total Impaired Loans</b>					
Commercial installment	\$ 125	\$ 389	\$ 264	\$ 868	\$ 18
Commercial real estate	3,196	3,600	401	10,305	161
Consumer real estate	427	492	63	2,981	28
Consumer installment	<u>38</u>	<u>48</u>	<u>10</u>	<u>332</u>	<u>1</u>
Total Impaired Loans	<u>\$ 3,786</u>	<u>\$ 4,529</u>	<u>\$ 738</u>	<u>\$ 14,486</u>	<u>\$ 208</u>

The book balance of troubled debt restructurings at December 31, 2010 is \$4,750,813. Approximately \$240,000 in specific reserves have been established with respect to these loans as of December 31, 2010. As of December 31, 2010, the Company had no additional amounts committed on any loan classified as a troubled debt restructuring. The book balance of trouble debt restructurings as of December 31, 2009 was \$2,801,464.

The gross interest income that would have been recorded in the period that ended if the nonaccrual loans had been current in accordance with their original terms and had been outstanding throughout the period or since origination, if held for part of the period for December 31, 2010 and 2009, was \$158,000 and \$80,000, respectively.

The following table summarizes by class our loans classified as past due in excess of 30 days or more in addition to those loans classified as non-accrual:

<b>December 31, 2010</b>					
<b>(In thousands)</b>					
	<b>Past Due 30 to 89 Days</b>	<b>Past Due 90 Days or More and Still Accruing</b>	<b>Non-Accrual</b>	<b>Total Past Due and Non-Accrual</b>	<b>Total Loans</b>
	\$		\$		
Real Estate-construction	593	\$ 1	1,433	\$ 2,027	\$ 58,962
Real Estate-mortgage	3,673	153	893	4,719	102,426
Real Estate-non farm nonresidential	438	737	1,452	2,627	109,073
Commercial	740	144	386	1,270	48,427
Consumer	262	36	48	346	10,747
			\$		
<b>Total</b>	<b>\$ 5,706</b>	<b>\$ 1,071</b>	<b>4,212</b>	<b>\$ 10,989</b>	<b>\$ 329,635</b>

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans was as follows:

	Real Estate Commercial	Real Estate Mortgage	Installment and Other	Commercial, Financial and Agriculture	Total
Pass	\$ 187,657	\$ 53,776	\$ 8,764	\$ 47,500	\$ 297,697
Special Mention	5,154	125	70	14	5,363
Substandard	17,820	6,130	297	2,215	26,462
Doubtful	-	-	-	180	180
Subtotal	210,631	60,031	9,131	49,909	329,702
Less:					
Unearned Discount	67	-	-	-	67
Loans, net of unearned discount	<u>\$ 210,564</u>	<u>\$ 60,031</u>	<u>\$ 9,131</u>	<u>\$ 49,909</u>	<u>\$ 329,635</u>

#### **NOTE E - PREMISES AND EQUIPMENT**

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

	2010	2009
Premises:		
Land	\$ 4,970,959	\$ 4,970,959
Buildings and improvements	9,881,906	9,848,581
Equipment	4,504,541	4,418,294
Construction in progress	1,329,262	141,923
	<u>20,686,668</u>	<u>19,379,757</u>
Less accumulated depreciation and amortization	<u>5,692,742</u>	<u>5,100,466</u>
	<u>\$ 14,993,926</u>	<u>\$ 14,279,291</u>

The amounts charged to operating expense for depreciation were \$655,608 and \$754,808 in 2010 and 2009, respectively.

#### **NOTE F - DEPOSITS**

The aggregate amount of time deposits in denominations of \$100,000 or more as of December 31, 2010, and 2009 was \$100,328,380 and \$89,926,071, respectively.

At December 31, 2010, the scheduled maturities of time deposits included in interest-bearing deposits were as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2011	\$ 107,323
2012	35,107
2013	8,732
2014	3,409
2015	
	<u>11,150</u>
	<u>\$ 165,721</u>

**NOTE G - BORROWED FUNDS**

Borrowed funds consisted of the following:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Reverse Repurchase Agreement	\$15,000,000	\$15,000,000
FHLB advances	<u>15,106,895</u>	<u>17,037,082</u>
	<u>\$30,106,895</u>	<u>\$32,037,082</u>

Advances from the FHLB have maturity dates ranging from September, 2011 through August, 2015. Interest is payable monthly at rates ranging from 1.296% 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, 2010, FHLB advances available and unused totaled \$86,326,904.

Future annual principal repayment requirements on the borrowings from the FHLB at December 31, 2010, were as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 3,075,064
2012	3,261,058
2013	1,770,773
2014	<u>7,000,000</u>
	<u>\$ 15,106,895</u>

Reverse Repurchase Agreements consisted of three \$5,000,000 agreements. The agreements are secured by securities with a fair value of \$18,193,100 at December 31, 2010 and \$17,444,000 at December 31, 2009. 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, 2010, that the Company and its subsidiary bank exceeded all capital adequacy requirements.

At December 31, 2010 and 2009, 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, 2010 and 2009, are presented in the following table. No amount was deducted from capital for interest-rate risk exposure.

	Company (Consolidated)		Subsidiary The First	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2010</b>				
Total risk-based	\$ 70,818	19.6%	\$ 58,368	16.2%
Tier I risk-based	66,307	18.4%	53,867	15.0%
Tier I leverage	66,307	13.1%	53,867	10.7%
<b>December 31, 2009</b>				
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%

The minimum amounts of capital and ratios as established by banking regulators at December 31, 2010 and 2009, were as follows:

	Company (Consolidated)		Subsidiary The First	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2010</b>				
Total risk-based	\$ 28,860	8.0%	\$ 28,798	8.0%
Tier I risk-based	14,430	4.0%	14,399	4.0%
Tier I leverage	20,249	4.0%	20,212	4.0%
<b>December 31, 2009</b>				
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%

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 guidance, unrealized gains and losses on securities available-for-sale are included in accumulated other comprehensive income (loss).

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 accumulated other comprehensive income. The disclosure of the reclassification amounts is as follows:

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Unrealized holdings gains (losses) on available-for-sale securities and loans held for sale	\$ (1,141,866)	\$ 355,795
Reclassification adjustment for net losses realized in income	421,096	111,42
Net unrealized gains (losses)	(720,770)	467,223
Tax effect	245,062	158,856
Net unrealized gains (losses), net of tax	<u>\$ (475,708)</u>	<u>\$ 308,367</u>

**NOTE J - INCOME TAXES**

The components of income tax expense are as follows:

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2 009</b>
Current:		
Federal	\$832,607	\$731,452
State	107,196	48,266
Deferred (benefit)	(84,605)	(265,607)
	<u>\$855,198</u>	<u>\$514,111</u>

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:

	<b>Years Ended December 31,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Income taxes at statutory rate	\$ 1,157,340	34%	\$ 767,553	34%
Tax-exempt income	(492,985)	(15)%	(399,973)	(18)%
Nondeductible expenses	127,413	4%	140,342	6%
State income tax, net of federal tax effect	69,140	2%	31,856	2%
Tax credits	-	-	(25,887)	(1)%
Other, net	(5,710)	-	220	-
	<u>\$ 855,198</u>	<u>25%</u>	<u>\$ 514,111</u>	<u>23%</u>

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

	December 31,	
	2010	2009
Deferred tax assets:		
Allowance for loan losses	\$ 1,331,481	\$ 1,384,855
Unrealized loss on available-for-sale securities	295,315	45,870
Net operating loss carryover	807,535	885,272
Other	448,375	360,925
	<u>2,882,706</u>	<u>2,676,922</u>
Deferred tax liabilities:		
Securities	(113,808)	(155,772)
Premises and equipment	(700,625)	(761,078)
Core deposit intangible	(148,631)	(174,480)
	<u>(963,064)</u>	<u>(1,091,330)</u>
Net deferred tax asset, included in other assets	<u>\$ 1,919,642</u>	<u>\$ 1,585,592</u>

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 \$127,922 in 2010 and \$131,660 in 2009.

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, 2010, the ESOP held 6,142 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 \$17,177 for 2010 and \$13,211 for 2009.

#### **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.



A summary of the 1999 stock option plan as of December 31, 2009, is presented below:

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	117,826	\$8
Options exercised	(29,668)	8
Options forfeited		12
	<u>(88,158)</u>	
Options outstanding at end of year	<u>-</u>	0
Options exercisable at end of year	<u>-</u>	0

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 authorized but unissued shares or treasury shares. Through the year ended December 31, 2009, no shares were issued under this Plan. During the year ended December 31, 2010, 12,353 nonvested restricted stock awards were granted under the Plan. The weighted average grant-date fair value for these shares was \$7.35 per share. Compensation costs in the amount of \$12,610, was recognized for the year ended December 31, 2010. Shares of restricted stock granted to employees under this stock plan are subject to restrictions as to the vesting period. The restricted stock award becomes 100% vested on the earliest of 1) the three year vesting period provided the Grantee has not incurred a termination of employment prior to that date, 2) the Grantee's retirement, or 3) the Grantee's death. During this period, the holder is entitled to full voting rights and dividends. As of December 31, 2010, there was approximately \$78,000 of unrecognized compensation cost related to this Plan. The cost is expected to be recognized over the remaining term of the vesting period (approximately 2.75 years).

**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, 2010, and 2009.

**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 \$14,580,000 and \$14,814,000 at December 31, 2010 and 2009, respectively. The activity in loans to current directors, executive officers, and their affiliates during the year ended December 31, 2010, is summarized as follows (in thousands):

Loans outstanding at beginning of year	\$ 14,814
New loans	2,489
Repayments	(2,723)
Loans outstanding at end of year	<u>\$ 14,580</u>

**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 \$960,000 and \$1,012,000 at December 31, 2010 and 2009, respectively, and had made loan commitments of approximately \$52,083,000 and \$39,967,000 at December 31, 2010 and 2009, 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, 2010, 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, 2010, 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 two leases for facilities during 2009 and 2010. The first lease requires monthly payments of \$3,013 through June, 2012. One five-year renewal option is included in the lease term. The second 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 and 2010 to related parties amounted to \$0.

Rental expense for premises and equipment for the years ended December 31, 2010 and 2009, was approximately \$126,000 and \$136,000, 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 McMurtry, 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 denied any liability to Welch.

On March 7, 2011 an Agreed Order of Dismissal was entered in the litigation as previously disclosed by the Company on Form 8-K filed on March 8, 2011.

## 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 consolidated balance sheets.

### *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. Level 1 securities include mutual funds. 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, 2010 and December 31, 2009 (in thousands):

### December 31, 2010

	Fair Value	Fair Value Measurements Using		
		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	\$ 104,534	\$ 986	\$100,929	\$2,619

December 31, 2009

	Fair Value	Fair Value Measurements Using		
		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	\$ 958	\$108,040	\$3,233

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

	Bank-Issued Trust Preferred Securities
<i>(Dollars in thousands)</i>	
Balance, December 31, 2009	\$ 3,233
Transfers into Level 3	-
Transfers out of Level 3	-
Other-than-temporary impairment loss included in earnings	(472)
Unrealized loss included in comprehensive income	(142)
Balance, December 31, 2010	<u>\$ 2,619</u>

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, 2010, amounted to \$4.0 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 fell at December 31, 2010 and December 31, 2009.

#### December 31, 2010

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 4,529	\$ -	\$ 4,529	\$ -
Other real estate owned	3,995	-	3,995	-

#### December 31, 2009

Impaired loans	\$ 20,609	\$ -	\$ 20,609	\$ -
Other real estate owned	2,903	-	2,903	-

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, 2010		As of December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands )			
Financial Instruments:				
Assets:				
Cash and cash equivalents	\$ 33,977	\$ 33,977	\$ 15,991	\$ 15,991
Securities available-for-sale	104,534	104,534	112,231	112,231
Securities held-to-maturity	3	3	3	3
Other securities	2,599	2,599	2,384	2,384
Loans, net	327,956	339,927	314,033	326,271
Liabilities:				
Noninterest-bearing deposits	\$ 48,312	\$ 48,312	\$ 48,527	\$ 48,527
Interest-bearing deposits	348,167	349,565	335,227	337,238
Subordinated debentures	10,310	10,310	10,310	10,310
FHLB and other borrowings	30,107	30,107	32,037	32,037

## **NOTE R - SENIOR PREFERRED STOCK**

On February 6, 2009, as part of the U.S. Department of Treasury's ("Treasury") Capital Purchase Program ("CPP"), the Company received a \$5.0 million equity investment by issuing 5 thousand shares of Series A, no par value preferred stock to the Treasury pursuant to a Letter Agreement and Securities Purchase Agreement that was previously disclosed by the Company. The Company also issued a warrant to the Treasury allowing it to purchase 54,705 shares of the Company's common stock at an exercise price of \$13.71. The warrant can be exercised immediately and has a term of 10 years.

The non-voting Series A preferred shares issued, with a liquidation preference of \$1 thousand per share, will pay a cumulative cash dividend quarterly at 5% per annum during the first five years the preferred shares are outstanding, resetting to 9% thereafter if not redeemed. The CPP also includes certain restrictions on dividend payments of the Company's lower ranking equity and the ability to purchase its outstanding common shares.

The Company allocated the proceeds received from the Treasury, net of transaction costs, on a pro rata basis to the Series A preferred stock and the warrant based on their relative fair values. The Company assigned \$.3 million and \$4.7 million to the warrant and the Series A preferred stock, respectively. The resulting discount on the Series A preferred stock is being accreted up to the \$5.0 million liquidation amount over the five year expected life of the Series A preferred stock.

On September 29, 2010, and pursuant to the terms of the letter agreement between the Company and the United States Department of the Treasury ("Treasury"), the Company closed a transaction whereby Treasury exchanged its 5,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series UST, (The "CPP Preferred Shares") for 5,000 shares of a new series of preferred stock designated Fixed Rate Cumulative Perpetual Preferred Stock, Series CD (the "CDCI Preferred Shares"). On the same day, and pursuant to the terms of the letter agreement between the Company and Treasury, the Company issued an additional 12,123 CDCI Preferred Shares to Treasury for a purchase price of \$12,123,000. As a result of the CDCI Transactions, the Company is no longer participating in the TARP Capital Purchase Program being administered by Treasury and is now participating in Treasury's TARP Community Development Capital Initiative (the "CDCI"). The terms of the CDCI Transactions are more fully set forth in the Exchange Letter Agreement and the Purchase Letter Agreement.

The Letter Agreement, pursuant to which the Preferred Shares were exchanged, contains limitations on the payment of dividends on the common stock to no more than 100% of the aggregate per share dividend and distributions for the immediate prior fiscal year (dividends of \$0.15 per share were declared and paid in 2010) and on the Company's ability to repurchase its common stock, and continues to subject the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA), as previously disclosed by the Company.

The most significant difference in terms between the CDCI Preferred Shares and the CPP Preferred Shares is the dividend rate applicable to each. The CPP Preferred Shares entitled the holder to an annual dividend of 5% of the liquidation value of the shares, payable quarterly in arrears; by contrast, the CDCI Preferred Shares entitle the holder to an annual dividend of 2% of the liquidation value of the shares, payable quarterly in arrears. Other differences in terms between the CDCI Preferred Shares and the CPP Preferred Shares, include, without limitation, the restrictions on common stock dividends and on redemption of common stock and other securities exist. The terms of the CDCI Preferred Shares are more fully set forth in the Articles of Amendment creating the CDCI Preferred Shares, which Articles of Amendment were filed with the Mississippi Secretary of State on September 27, 2010.



As a condition to participation in the CDCI, the Company was required to obtain certification as a Community Development Financial Institution (a “CDFI”) from Treasury’s Community Development Financial Fund. On September 28, 2010, the Company was notified that its application for CDFI certification had been approved. In order to become certified and maintain its certification as a CDFI, the Company is required to meet the CDFI eligibility requirements set forth in 12 C.F.R. 1805.201(b).

#### **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**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Assets:		
Cash and cash equivalents	\$ 11,819,433	\$ 285,232
Investment in subsidiary bank	54,659,166	52,768,436
Investments in statutory trusts	310,000	310,000
Other securities	100,000	100,000
Premises and equipment	368,623	368,623
Other	204,364	207,448
	<u>\$ 67,461,586</u>	<u>\$ 54,039,739</u>
Liabilities and Stockholders’ Equity:		
Subordinated debentures	10,310,000	10,310,000
Other	53,501	113,073
Stockholders’ equity	57,098,085	43,616,666
	<u>\$ 67,461,586</u>	<u>\$ 54,039,739</u>

*Condensed Statements of Income*

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Income:		
Interest and dividends	\$ 799	\$ 25,354
Dividend income	650,000	-
Other	1,500	1,500
	<u>652,299</u>	<u>26,854</u>
Expenses:		
Interest on borrowed funds	187,160	291,110
Other	438,031	360,820
	<u>625,191</u>	<u>651,930</u>
Income (loss) before income taxes and equity in undistributed income of subsidiary	27,108	(625,076)
Income tax benefit	155,197	158,282
Income (loss) before equity in undistributed income of subsidiary	<u>182,305</u>	<u>(466,794)</u>
Equity in undistributed income of subsidiary	<u>2,366,439</u>	<u>2,210,191</u>
Net income	<u><u>\$ 2,548,744</u></u>	<u><u>\$ 1,743,397</u></u>

*Condensed Statements of Cash Flows*

	<b>Years Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income	\$ 2,548,744	\$ 1,743,397
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed income of subsidiary	(2,366,439)	(2,210,191)
Restricted stock expense	12,610	-
Other, net	<u>(68,920)</u>	<u>161,957</u>
Net cash provided by (used in) operating activities	<u>125,995</u>	<u>(304,837)</u>
Cash flows from investing activities:		
Investment in subsidiary bank	<u>-</u>	<u>(5,000,000)</u>
Net cash used in investing activities	<u>-</u>	<u>(5,000,000)</u>
Cash flows from financing activities:		
Dividends paid on common stock	(452,980)	-
Dividends paid on preferred stock	(261,814)	(193,750)
Exercise of stock options	-	222,510
Proceeds from issuance of preferred stock and warrant	<u>12,123,000</u>	<u>5,000,000</u>
Net cash provided by financing activities	<u>11,408,206</u>	<u>5,028,760</u>
Net increase (decrease) in cash and cash equivalents	11,534,201	(276,077)
Cash and cash equivalents at beginning of year	285,232	561,309
Cash and cash equivalents at end of year	<u><u>\$11,819,433</u></u>	<u><u>\$ 285,232</u></u>

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

	<u>March 31</u>	<u>Three Months Ended</u>		<u>Dec. 31</u>
		<u>June 30</u>	<u>Sept. 30</u>	
	(In thousands, except per share amounts)			
<b>2010</b>				
Total interest income	\$ 5,884	\$ 5,944	\$ 5,849	\$ 5,776
Total interest expense	<u>2,094</u>	<u>1,865</u>	<u>1,623</u>	<u>1,537</u>
Net interest income	<u>3,790</u>	<u>4,079</u>	<u>4,226</u>	<u>4,239</u>
Provision for loan losses	<u>165</u>	<u>217</u>	<u>372</u>	<u>229</u>
Net interest income after provision for loan losses	3,625	3,862	3,854	4,010
Total non-interest income	841	986	1,054	1,014
Total non-interest expense	3,698	3,895	4,025	4,224
Income tax expense	<u>232</u>	<u>304</u>	<u>261</u>	<u>58</u>
Net income	<u>536</u>	<u>649</u>	<u>622</u>	<u>742</u>
Preferred dividends	62	63	61	88
Preferred stock accretion	14	14	14	-
Net income applicable to common stockholders	<u>\$ 460</u>	<u>\$ 572</u>	<u>\$ 547</u>	<u>\$ 654</u>
Per common share:				
Net income, basic	\$ .15	\$ .19	\$ .18	\$ .22
Net income, diluted	.15	.19	.18	.22
Cash dividends declared	.075	.025	.05	-
<b>2009</b>				
Total interest income	\$ 6,253	\$ 6,156	\$ 6,104	\$ 6,117
Total interest expense	<u>2,812</u>	<u>2,634</u>	<u>2,493</u>	<u>2,301</u>
Net interest income	<u>3,441</u>	<u>3,522</u>	<u>3,611</u>	<u>3,816</u>
Provision (credit) for loan losses	<u>628</u>	<u>464</u>	<u>(36)</u>	<u>150</u>
Net interest income after provision for loan losses	2,813	3,058	3,647	3,666
Total non-interest income	1,097	1,056	1,131	1,113
Total non-interest expense	3,658	3,890	3,707	4,069
Income tax expense	<u>61</u>	<u>43</u>	<u>301</u>	<u>109</u>
Net income	<u>191</u>	<u>181</u>	<u>770</u>	<u>601</u>
Preferred dividends	38	63	63	62
Preferred stock accretion	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>
Net income applicable to common stockholders	<u>\$ 139</u>	<u>\$ 104</u>	<u>\$ 693</u>	<u>\$ 525</u>
Per common share:				
Net income, basic	\$ .05	\$ .03	\$ .23	\$ .18
Net income, diluted	.05	.03	.23	.18
Cash dividends declared	-	-	-	-



**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)**

**CONSENT OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement of The First Bancshares, Inc., on Form S-8 (Registration No. 333-171996) of our report dated March 30, 2011, on the 2010 consolidated financial statements of The First Bancshares, Inc., which report is included in the 2010 Annual Report on Form 10-K of The First Bancshares, Inc.

/s/ T. E. LOTT & COMPANY

Columbus, Mississippi  
March 30, 2011

**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 24, 2011

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

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**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 24, 2011

/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 24, 2011

/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 24, 2011

/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 any part of the most recently completed fiscal year that was a TARP 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 any part of the most recently completed fiscal year that was a TARP period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of The First Bancshares, Inc., and 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 any part of the most recently completed fiscal year that was a TARP 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 was 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 bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), 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 any part of the most recently completed fiscal year that was a TARP period;

(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 any part of the most recently completed fiscal year that was a TARP period;

(ix) The First Bancshares, Inc. and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period; and any expenses that, pursuant to the 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;

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(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 any part of the most recently completed fiscal year that was a TARP period;

(xi) The First Bancshares, Inc. will disclose the amount, nature, and justification for the offering, during any part of the most recently completed fiscal year that was a TARP period, 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 any part of the most recently completed fiscal year that was a TARP period, 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 any part of the most recently completed fiscal year that was a TARP period;

(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, 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 24, 2011

**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 any part of the most recently completed fiscal year that was a TARP 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 any part of the most recently completed fiscal year that was a TARP period any features of the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of The First Bancshares, Inc., and 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 any part of the most recently completed fiscal year that was a TARP 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 was 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 bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), 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 any part of the most recently completed fiscal year that was a TARP period;

(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 any part of the most recently completed fiscal year that was a TARP period;

(ix) The First Bancshares, Inc. and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period; and any expenses that, pursuant to the 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;

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(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 any part of the most recently completed fiscal year that was a TARP period;

(xi) The First Bancshares, Inc. will disclose the amount, nature, and justification for the offering, during any part of the most recently completed fiscal year that was a TARP period, 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 any part of the most recently completed fiscal year that was a TARP period, 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 any part of the most recently completed fiscal year that was a TARP period;

(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, 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 24, 2011