FIRST BANCSHARES INC /MS/
Form 10QSB
May 12, 2005

U. S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2005

OR

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

COMMISSION FILE NUMBER: 33-94288

THE FIRST BANCSHARES, INC.

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

MISSISSIPPI	**64-0862173**
(STATE OF INCORPORATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**
6480 U.S. HIGHWAY 98 WEST	**39402**

HATTIESBURG, MISSISSIPPI
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) **(ZIP CODE)**

(601) 268-8998

(ISSUER S TELEPHONE NUMBER, INCLUDING AREA CODE)

NONE

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

INDICATE BY CHECK MARK WHETHER THE ISSUER: (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES x NO ¨

ON MARCH 31, 2005, 1,168,446 SHARES OF THE ISSUER S COMMON STOCK, PAR VALUE $1.00 PER SHARE, WERE ISSUED AND OUTSTANDING.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): YES ¨ NO x

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PART I - FINANCIAL INFORMATION

ITEM NO. 1. FINANCIAL STATEMENTS

THE FIRST BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

($ amounts in thousands)	(Unaudited) March 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	$ 7,488	$ 5,577
Interest-bearing deposits with banks	1,279	650
Federal funds sold	2,552	919
Total cash and cash equivalents	11,319	7,146
Securities held-to-maturity, at amortized cost	14	14
Securities available-for-sale, at fair value	27,504	26,351
Other securities	2,166	2,156
Loans held for sale	1,619	3,073
Loans	175,405	161,302
Allowance for loan losses	(1,838)	(1,659)
LOANS, NET	173,567	159,643
Premises and equipment	8,572	8,670
Interest receivable	1,125	1,088
Cash surrender value	3,355	3,320
Other assets	1,107	935
	$ 230,348	$ 212,396
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 35,819	$ 30,365
Time, $100,000 or more	35,385	29,769
Interest-bearing	107,951	96,696
TOTAL DEPOSITS	179,155	156,830
Interest payable	268	191
Borrowed funds	26,377	30,850
Subordinated debentures	7,217	7,217
Other liabilities	577	568

TOTAL LIABILITIES	213,594	195,656
SHAREHOLDERS EQUITY:		
Common stock, $1 par value. Authorized 10,000,000 shares; 1,194,940 shares issued at March 31, 2005 and December 31, 2004	1,195	1,195
Preferred stock, par value $1 per share, 10,000,000 shares authorized; no shares issued and outstanding		
Treasury stock, at cost, 26,494 shares at March 31, 2005 and December 31, 2004	(464)	(464)
Additional paid-in capital	12,986	12,986
Retained earnings	3,150	3,019
Accumulated other comprehensive income	(113)	4
TOTAL SHAREHOLDERS EQUITY	16,754	16,740
	$ 230,348	$ 212,396

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF INCOME

($ amounts in thousands except earnings per share)	(Unaudited) Three Months Ended March 31, 2005	2004
INTEREST INCOME:		
Loans, including fees	$ 3,020	$ 2,251
Securities:		
Taxable	204	178
Tax exempt	42	26
Federal funds sold	36	4
Other		25
TOTAL INTEREST INCOME	3,302	2,484
INTEREST EXPENSE:		
Deposits	714	468
Other borrowings	359	258
TOTAL INTEREST EXPENSE	1,073	726
NET INTEREST INCOME	2,229	1,758
PROVISION FOR LOAN LOSSES	204	134
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,025	1,624
NONINTEREST INCOME:		
Service charges on deposit accounts	318	348
Other service charges, commissions and fees	141	73
Gain on sale of properties		152
TOTAL NONINTEREST INCOME	459	573
NONINTEREST EXPENSES:		
Salaries and employee benefits	1,154	951
Occupancy and equipment expense	276	286
Other operating expenses	507	472
TOTAL NONINTEREST EXPENSES	1,937	1,709
INCOME BEFORE INCOME TAXES	547	488
INCOME TAXES	182	161
NET INCOME	$ 365	$ 327
EARNINGS PER SHARE - BASIC	$ .31	$ .28

EARNINGS PER SHARE - ASSUMING DILUTION	.30	.27
DIVIDENDS PER SHARE	.20	.15

THE FIRST BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Amounts in Thousands)	(Unaudited) Three Months Ended March 31, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	$ 365	$ 327
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	145	138
Provision for loan losses	204	134
Changes in:		
Interest receivable	(37)	(107)
Loans held for sale	1,454	(1,931)
Interest payable	77	(10)
Other, net	(163)	68
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	2,045	(1,381)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Maturities and calls of securities available for sale	1,205	8,415
Purchases of securities available-for-sale	(2,485)	(1,877)
Net increase in loans	(14,128)	(12,136)
Purchases of premises and equipment	(47)	(350)
Increase in cash surrender value	(35)	(40)
NET CASH USED BY INVESTING ACTIVITIES	(15,490)	(5,988)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	22,325	6,858
Net increase (decrease) in borrowed funds	(4,473)	4,736
Dividend paid on common stock	(234)	(175)
NET CASH PROVIDED BY FINANCING ACTIVITIES	17,618	11,419
NET INCREASE IN CASH	4,173	4,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,146	5,865
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 11,319	$ 9,915
CASH PAYMENTS FOR INTEREST	$ 996	$ 736
CASH PAYMENTS FOR INCOME TAXES	376	

THE FIRST BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company s Form 10-KSB for the year ended December 31, 2004.

NOTE B SUMMARY OF ORGANIZATION

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

On August 10, 1998, the Company filed a registration statement on Form SB-2 relating to the issuance of up to 533,333 shares of Common Stock in connection with the formation of the First National Bank of the Pine Belt (Laurel Bank). The offering was closed on December 31, 1998, with 428,843 shares subscribed with an aggregate purchase price of $6.4 million. On January 19, 1999, the Laurel Bank received approval from its banking regulator to begin banking operations, and the Company used $5 million of the net proceeds to purchase 100% of the capital stock of the Laurel Bank. Simultaneously, the 428,843 shares subscribed to in the offering were issued.

In January, 2004, the two banks merged to become The First, a National Banking Association (The First). The banks were merged to take advantage of operating efficiencies and marketing opportunities. The First engages in general commercial banking business, emphasizing in its marketing the Bank s local management and ownership. The First offers a full range of banking services designed to meet the basic financial needs of its customers. These services include checking accounts, NOW accounts, money market deposit accounts, savings accounts, certificates of deposit, and individual retirement accounts. The First also offers short- to medium-term commercial, mortgage, and personal loans.

At March 31, 2005, the Company had approximately $230.3 million in consolidated assets, $177.0 million in consolidated loans, $179.2 million in consolidated deposits, and $16.8 million in consolidated shareholders equity. For the three months ended March 31, 2005, the Company reported a consolidated net income of $365,000.

In the first quarter of 2004 and 2005, the Company declared and paid dividends of $.15 and $.20 per common share, respectively.

NOTE C EARNINGS PER COMMON SHARE

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

	For the Three Months Ended March 31, 2005		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 365,000	1,168,446	$ .31
Effect of dilutive shares:			
Stock options		48,652	
Diluted per share	$ 365,000	1,217,098	$ .30

	For the Three Months Ended March 31, 2004		
	Net Income (Numerator)	Shares (Denominator)	Per Share Data
Basic per share	$ 327,000	1,165,165	$ .28
Effect of dilutive shares:			
Stock options		38,286	
Diluted per share	$ 327,000	1,203,451	$ .27

NOTE D - STOCK-BASED COMPENSATION

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

($ amounts in thousands except for per share data)	Three Months Ended March 31, 2005	2004
Net income, as reported	$ 365	$ 327
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1)	(1)
Pro forma net income	$ 364	$ 326
Earnings per share:		
Basic - as reported	$ .31	$ .28
Basic - pro forma	.31	.28
Diluted - as reported	.30	.27
Diluted - pro forma	.30	.27

NOTE E - COMPREHENSIVE INCOME

The following table discloses Comprehensive Income for the periods reported in the Consolidated Statements of Income:

(In thousands)	Quarter Ended March 31, 2005	2004
Net Income	$ 365	$ 327
Other Comprehensive Income (loss) net of tax:		
Unrealized holding gains (losses) on securities during the period, net of tax	(117)	114
Comprehensive Income	$ 248	$ 441
Accumulated Comprehensive Income (Loss)	(113)	$ 137

ITEM NO. 2 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

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

The First represents the primary asset of the Company. The First reported total assets of $229.0 million at March 31, 2005, compared to $210.9 million at December 31, 2004. Loans increased $12.6 million, or 7.7%, during the first three months of 2005. Deposits at March 31, 2005, totaled $183.2 million compared to $161.2 million at December 31, 2004. For the three month period ended March 31, 2005, The First reported net income of $432,000 compared to $268,000 for the three months ended March 31, 2004.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At March 31, 2005, The First had no concentrations of ten percent or more of total loans in any single industry nor any geographical area outside its immediate market areas.

At March 31, 2005, The First had loans past due as follows:

	($ In Thousands)
Past due 30 through 89 days	$ 951
Past due 90 days or more and still accruing	199

The accrual of interest is discontinued on loans which become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled $361,000 at March 31, 2005. Any other real estate owned is carried at fair value, determined by an appraisal. Other real estate owned totaled $211,000 at March 31, 2005. A loan is classified as a restructured loan when the interest rate is materially reduced or the term is extended beyond the original maturity date because of the inability of the borrower to service the debt under the original terms. The First had no restructured loans at March 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is adequate with cash and cash equivalents of $11.3 million as of March 31, 2005. In addition, loans and investment securities repricing or maturing within one year or less exceed $110.2 million at March 31, 2005. Approximately $21.2 million in loan commitments are expected to be funded within the next six months and other commitments, primarily standby letters of credit, totaled $829,000 at March 31, 2005.

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

Total consolidated equity capital at March 31, 2005, is $16.8 million, or approximately 7% of total assets. The First currently has adequate capital positions to meet the minimum capital requirements for all regulatory agencies. The capital ratios as of March 31, 2005, are as follows:

Tier 1 leverage	9.98%
Tier 1 risk-based	12.76%
Total risk-based	14.62%

On March 26, 2002, The First Bancshares Statutory Trust 1 (the Trust), a wholly-owned subsidiary trust of the Company, issued $7,000,000 of redeemable cumulative trust preferred securities. The Trust used the funds to acquire floating rate subordinated debentures from the Company. The debentures bear an interest rate of the 3-month LIBOR plus 3.60%. The debentures have a maturity of 30 years but are callable 5 years after issuance. The trust preferred securities qualify as Tier 1 capital up to 25% of other components of Tier 1 capital. In accordance with FIN 46, Consolidation of Variable Interest Entities the statutory trust is not included in the consolidated financial statements. Instead the subordinated debentures due to statutory trust are included in the consolidated liabilities of the Company.

RESULTS OF OPERATIONS

The Company had a consolidated net income of $365,000 for the three months ending March 31, 2005, compared with consolidated net income of $327,000 for the same period last year.

Net interest income increased to $2,229,000 from $1,758,000 for the first three months ending March 31, 2005, or an increase of 27% as compared to the same period in 2004. Earning assets through March 31, 2005, increased $53.6 million and interest-bearing liabilities also increased $41.0 million when compared to March 31, 2004, reflecting an increase of 33% and 32%, respectively.

Noninterest income for the three months ending March 31, 2005, was $459,000 compared to $573,000 for the same period in 2004, reflecting a decrease of $114,000, or 20%. For the three months ending March 31, 2004, the company reported a gain of $152,000 related to the sale of property. Included in noninterest income is service charges on deposit accounts, which for the three months ended March 31, 2005, totaled $318,000, compared to $348,000 for the same period in 2004.

The provision for loan losses was $204,000 in the first three months of 2005 compared with $134,000 for the same period in 2004. The allowance for loan losses of $1.8 million at March 31, 2005 (approximately 1% of loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management s assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. Management evaluates the adequacy of the allowance for loan losses quarterly and makes provisions for loan losses based on this evaluation.

Noninterest expenses increased by $228,000 or 13% for the three months ended March 31, 2005, when compared with the same period in 2004. This increase is primarily due to the continued growth and the related services being offered.

ITEM NO. 3. CONTROLS AND PROCEDURES

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of principal executive officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of principal financial officer pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b) The Company filed one report on Form 8-K during the quarter ended March 31, 2005.

SIGNATURES

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

THE FIRST BANCSHARES, INC.
(Registrant)

/s/ DAVID E. JOHNSON

May 11, 2005
(Date)

David E. Johnson, President and
Chief Executive Officer

/s/ DONNA T. RUTLAND

May 11, 2005
(Date)

Donna T. Rutland, Senior
Vice President and Chief
Financial Officer