FIRST BANCSHARES INC /MS/
Form S-1
September 08, 2006

As filed with the Securities and Exchange Commission on September

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FIRST BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Mississippi	**6022**	
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	I

6480 U.S. HWY. 98 WEST
HATTIESBURG, MISSISSIPPI 39402
(601) 268-8998
(Address, including zip code, and telephone number, including area
of registrant's principal executive offices)

DONNA T. LOWERY
6480 U.S. HWY. 98 WEST
HATTIESBURG, MISSISSIPPI 39402
(601) 268-8998
(Name, address, including zip code, and telephone number, inclu
area code, of agent for service)
Copies to:

J. ANDREW GIPSON, ESQ.
WATKINS LUDLAM WINTER & STENNIS, P.A.
POST OFFICE BOX 427
633 NORTH STATE STREET
JACKSON, MISSISSIPPI 39202
(601) 949-4900

If any of the securities being registered on this Form are to be offered on a delayed or con
under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462
please check the following box and list the Securities Act registration statement number of the e
statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securitie
list the Securities Act registration statement number of the earlier effective registration state

The Registrant hereby amends this Registration Statement on such date or dates as may be nec until the Registrant shall file a further amendment that specifically states that this Registrati become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Regi effective on such date as the Securities and Exchange Commission, acting pursuant to said Section

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	R
Common Stock ($1.00 Par Value)	365,000	$24.61	$8,982,650	

(1) The maximum number of First Bancshares common shares to be under the offering.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant t on the closing trade price of First Bancshares common stock on the Nasdaq Capital Market on Septe

Subject to completion dated September ____, 2006

The information in this prospectus is not complete and may be changed. These securities may not b statement filed with the Securities and Exchange Commission is effective. This prospectus is not and is not seeking an offer to buy the securities in any state or jurisdiction where the offer or

365,000 SHARES

FIRST BANCSHARES, INC.

COMMON STOCK

____

PROSPECTUS

____

We are offering 365,000 shares of our common stock, par value $1.00 per share. The publi per share.

Our common stock is currently quoted and traded on The Nasdaq Capital Market, under the sale price of our common stock on The Nasdaq Capital Market on September _____, 2006 was $_______

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8 to consider before you make your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission or ot or disapproved of these securities or passed upon the adequacy of this prospectus. Any representa offense.

These securities are not savings accounts, deposit accounts or other obligations of our insured or guaranteed by the Federal Deposit Insurance Company's Bank Insurance Fund or any other

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The date of this Prospectus is September ____, 2006

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ABOUT THIS PROSPECTUS

You should rely only on information contained in this prospectus. We have not authorized any other person, including any of our officers or agents, to provide you with different or additional information. We are not making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock. Our business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to those jurisdictions.

In this prospectus, we rely on and refer to information and statistics regarding the banking industry and the Mississippi banking market. We obtained this market data from independent publications or other publicly available information. Although we believe these sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

You should not construe the contents of the prospectus or any prior or subsequent communications from us or any of our employees or agents as investment, legal, or tax advice. You should consult your own legal counsel, accountant, or other professional advisors as to legal, tax, and other related matters concerning your purchase.

As used in this prospectus, the terms we, us, our, and the Company refer to First Bancshares, Inc., and its subsidiary on a consolidated basis (unless the context indicates another meaning), and the terms the Bank, the bank, or our bank means The First, A National Banking Association (unless the context indicates another meaning).

SUMMARY

The following is a selective summary of certain information contained in this prospectus and is not intended to be complete in itself nor to provide all the information necessary for you to make an investment decision and is qualified in its entirety by the more detailed information included in this prospectus. To understand this offering fully, you should carefully read this entire prospectus, including the sections entitled Risk Factors and Management s Discussion and *Analysis of Financial Condition and Results of Operations.*

Our Company

First Bancshares. First Bancshares is a bank holding company headquartered at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402, telephone number (601) 268-8998. Its principal subsidiary is The First, a National Banking Association. The First serves the cities of Bay St. Louis, Hattiesburg, Laurel, Pascagoula, Picayune, Purvis, and the surrounding areas of Forrest, Hancock, Jackson, Jones, Lamar, and Pearl River Counties in Mississippi. First Bancshares, through its subsidiary, 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. As of June 30, 2006, First Bancshares had total assets of $329.2 million; total deposits of $268.6 million, total loans of $238.0 million, and shareholders equity of $19.5 million.

The First. The First is a national banking association headquartered at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402, telephone number (601) 268-8998. The First also has branch offices located at: (1) 835 Hwy 90, Suite 4 in Bay St. Louis, Hancock County, Mississippi; (2) 631 Hwy 589 in Purvis, Lamar County, Mississippi; (3) 2702 Lincoln Road in Hattiesburg, Forrest County, Mississippi; (4) 3318 Hardy Street in Hattiesburg, Forrest County, Mississippi; (5) Hwy 15 North in Laurel, Jones County, Mississippi; (6) 1506-B Hwy 43 South in Picayune, Pearl River County, Mississippi; and (7) 1126 Jackson Avenue, Suite 101 in Pascagoula, Jackson County, Mississippi. The First provides a full complement of consumer and commercial banking services in south Mississippi.

General

The First Bancshares, Inc. (the Company) was incorporated on June 23, 1995 to serve as a holding company for The First National Bank of South Mississippi (The First) located in Hattiesburg, Mississippi and The First National Bank of the Pine Belt (Pine Belt), located in Laurel, Mississippi (collectively, the Banks). 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. Pine Belt began banking operations on January 19, 1999. In January, 2004, the two banks were consolidated to form one bank, The First, A National Banking Association. 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, and one in Pascagoula, Mississippi. The First recently received approval from the Office of the Comptroller of the Currency to open a branch in Bay St.

Louis, MS. 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, and the surrounding areas of Lamar, Forrest, Jones, Pearl River, Hancock, and Jackson Counties, Mississippi. The First has a main office located in the city of Hattiesburg, Mississippi, in Lamar County. The First has a branch office located on Highway 589 in the city of Purvis, Mississippi, also in Lamar County, a third office located at the intersection of Lincoln Road and South 28th Avenue in Hattiesburg, a fourth location at 3318 Hardy Street in Hattiesburg, a fifth location at Hwy 15 North in Laurel, a sixth location at Hwy 43 South in Picayune, a seventh location at Jackson Avenue in Pascagoula, Mississippi, and an eighth location at Hwy. 90 in Bay St. Louis, 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 primarily serves the area in and around Bay St. Louis, MS, including Diamondhead and Kiln, also in Hancock County. Bay St. Louis can be reached via Highway 90. Major employers located in the area include Hollywood Casino, Hancock Medical Center, Stennis Space Center, GE Plastics, Dupont, Wellman, Calgon, City of Bay St. Louis, City of Waveland, Hancock County, and Hancock County School District. The principal components of the economy of the Hancock County area include tourism/gaming, manufacturing and shipping.

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.

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Deposit Services.  The Bank offers a full range of deposit services that are typically a
savings and loan associations, including checking accounts, NOW accounts, savings accoun
of various types, ranging from daily money market accounts to longer-term certificates o
accounts and time certificates are tailored to the Bank's principal market area at rates
offered by other banks in the area.  In addition, the Bank offers certain retirement acc
Individual Retirement Accounts (IRAs).  All deposit accounts are insured by the Federal
Corporation (the "FDIC") up to the maximum amount allowed by law.  The Bank solicits the
individuals, businesses, associations and organizations, and governmental authorities.

Loan Products.  The Bank offers a full range of commercial and personal loans.  Commerci
secured and unsecured loans for working capital (including loans secured by inventory an
business expansion (including acquisition of real estate and improvements), and purchase
machinery.  Consumer loans include equity lines of credit and secured and unsecured loan
home improvements, education, and personal investments.  The Bank also makes real estate
acquisition loans.  The Bank's lending activities are subject to a variety of lending li
law.  While differing limits apply in certain circumstances based on the type of loan or
(including the borrower's relationship to the bank), in general the Bank is subject to a
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of an amount equal to 15% of the Bank's unimpaired capital and surplus.  The Bank may no
director,  executive officer, or 10% shareholder unless the loan is approved by the Boar
and is made on terms not more favorable to such a person than would be available to a pe
Bank.

Mortgage Loan Divisions.  The Bank has mortgage loan divisions which originate loans to
construct new homes and to refinance existing mortgages.

Other Services.  Other bank services include on-line Internet banking services, voice re
service, commercial sweep accounts, cash management services, safe deposit boxes, travel
of payroll and social security checks, and automatic drafts for various accounts.  The B
Money Belt, Gulfnet, and Plus networks of automated teller machines that may be used by
throughout Mississippi and other regions.  The Banks also offer VISA and MasterCard cred
correspondent bank.
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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. Recent 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 June 30, 2006, the Company had 109 full-time employees and 15 part-time employees.

Corporate Information

Our headquarters are located at 6480 U.S. Hwy 98 West, Hattiesburg, Mississippi 39402, and our telephone number at that address is 601-268-8998. We maintain a website at www.thefirstbank.com. Information on the website is not incorporated by reference and is not a part of this prospectus.

The Offering

Common stock offered	365,000 shares
Common stock outstanding after this offering	2,744,630 shares (excludes 250,899 shares exercisable by ou vested options) (also excludes 109,274 shares of common sto be issued upon closing of the merger of First National Bank discussed on page 64 below)
Net proceeds	The net proceeds of this offering will be approximately $8 assuming a public offering price of $___________.00 per shar closing price on September ____, 2006).
Use of proceeds	We intend to use the net proceeds of this offering for gene purposes, which may include, among other things, our workin needs and investments in our subsidiary bank to support our

Dividend Policy	It is the company's policy to pay cash dividends on its com annually, subject to the factors as discussed on page 12 fo
Nasdaq Capital Market Symbol	FBMS
Risk Factors	See "Risk Factors" beginning on page 8 for a description of risks related to an investment in our common stock.

The number of shares outstanding after the offering is based upon our shares outstanding as of September _____, 2006 and excludes ________ shares issuable under outstanding options granted by us under the Company s stock option plans. Of these options, _________ are exercisable as of September ____, 2006 at a weighted average exercise price of $___________.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth summary historical consolidated financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations which are included elsewhere in this prospectus. This information is derived from our audited consolidated financial statements and related notes, which were audited by T.E. Lott & Company, our independent registered public accounting firm, for the years ended December 31, 2005, 2004, 2003, 2002 and 2001. The summary historical consolidated financial data as of and for the six months ended June 30, 2006 and June 30, 2005 is derived from our unaudited consolidated financial statements for those periods. The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring items, which our management considers necessary for a fair presentation of our financial position and results of operations for these periods. The financial condition and results of operations as of and for the six months ended June 30, 2006 do not purport to be indicative of the financial condition or results of operations to be expected as of or for the fiscal year ending December 31, 2006.

First Bancshares and Subsidiaries - Selected Financial Data

(In Thousands Except Per Share Amounts and Ratios)

	Six Months Ended June 30, (unaudited)		Year Ended December 3		
	2006	**2005**	**2005**	**2004**	**2003**	**20**

Statements of earnings						
Interest income	10,392	7,020	15,692	11,014	10,486	9,8
Interest expense	3,816	2,347	5,542	3,199	3,177	3,7
Net interest income	6,576	4,673	10,150	7,815	7,309	6,1
Provision for possible loan Losses	294	437	921	672	468	3
Net interest income after provision for possible loan losses	6,282	4,236	9,229	7,143	6,841	5,7
Other operating income	1,123	892	1,682	1,963	1,772	1,6
Other operating expense	4,969	3,837	8,138	7,228	7,134	6,1
Income before income taxes	2,436	1,291	2,773	1,878	1,479	1,2
Income tax expense	688	432	864	635	472	4
Net income	1,748	859	1,909	1,243	1,007	8
Net income per share						
Primary	.74	.37	.81	.54	.43	.
Fully diluted	.69	.35	.77	.52	.42	.
Cash dividends per share	.16	.10	.10	.075	.05	.
Weighted average shares outstanding						
Primary	2,377,802	2,356,746	2,358,308	2,331,970	2,338,102	2,330,3
Fully diluted	2,536,381	2,473,480	2,488,890	2,406,682	2,414,484	2,407,2
Statements of condition - averages						
Total assets	316,485	239,343	252,913	186,440	161,039	147,2
Earning assets	291,826	219,682	231,565	168,474	143,345	131,6
Securities available for sale	57,275	26,618	30,971	24,725	25,121	23,1
Investment securities	57,288	26,632	30,985	24,740	25,141	23,1
Loans, net of unearned income	222,790	187,069	189,187	140,052	112,468	103,0
Deposits	262,605	188,869	199,389	139,264	119,910	115,6
Long-term debt	32,254	31,596	34,759	30,292	24,740	16,0
Total stockholders' equity	18,568	16,780	17,278	16,203	15,698	14,8
Selected ratios						
Return on average assets	1.10	.72	.75	.67	.63	.
Return on average equity	18.82	10.24	11.0	7.7	6.4	5
Net interest margin - tax equivalent	4.51	4.25	4.38	4.64	5.10	4.
*Efficiency ratio	64.54	68.95	68.78	73.92	78.56	78.
Loans to deposits	87.5	98.8	81.4	102.9	93.4	85
Allowance for possible loan losses to loans, net of unearned income	1.12	1.03	1.18	1.01	1.01	1.
Net charge-offs (recoveries) to average loans, net of unearned income	.03	.06	.11	.13	.47	.
Dividend payout	10.81	13.51	12.3	14.2	11.6	13
Average equity to average assets	5.87	7.01	6.8	8.7	9.7	10
Leverage ratio	8.45	9.8	8.0	10.8	12.7	12
Tier 1 risk-based	10.87	12.21	12.0	13.7	16.2	15
Total risk-based	13.69	13.27	12.4	14.6	18.6	19

*Excludes the effects of amortization of goodwill and core deposit intangibles.

RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

Natural disasters could affect First Bancshares ability to operate

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

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

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

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

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

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

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

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

First Bancshares is also subject to the accounting rules and regulations of the SEC and the Financial Accounting Standards Board. Changes in accounting rules could adversely affect the reported financial statements or results of operations of First Bancshares and may also require extraordinary efforts or additional costs to implement. Any of these laws or regulations may be modified or changed from time to time, and First Bancshares cannot be assured that such modifications or changes will not adversely affect First Bancshares.

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

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

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies, and expectations, are generally identifiable by the use of the words anticipate, will, believe, may, could, would, should, es expect, intend, seek, or similar expressions. These forward-looking statements may address, among other things, our business plans, objectives or goals for future operations or expansion, the anticipated effects of the offering of the securities hereunder, our forecasted revenues, earnings, assets, or other measures of performance, or estimates of risks and future costs and benefits. Although these statements reflect our good faith belief based on current expectations, estimates and projections, they are subject to risks, uncertainties and assumptions, and are not guarantees of future performance. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this prospectus are described under Risk Factors and those factors include, but are not limited to:

- Our potential growth, including our entrance or expansion into new markets, and the support that growth;
- Changes in the quality or composition of our loan or investment portfolios, includi borrower industries or in the repayment ability of individual borrowers or issuers;
- An insufficient allowance for loan losses as a result of inaccurate assumptions abo
- The strength of the economies in our market areas, as well as general economic mark
- Changes in demand for loan products and financial services;
- Increased competition or market concentration;
- Concentration of credit exposure;
- Changes in interest rates, yield curves and interest rate spread relationships;
- New state or federal registration, regulations, or the initiation or outcome of lit
- Other circumstances, many of which may be beyond our control.

If one or more of these risks or uncertainties materialize, or if any of our underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this section. We do not intend to and assume no responsibility for updating or revising any forward-looking statements contained in this prospectus, whether as a result of new information, future events, or otherwise.

USE OF PROCEEDS

We estimate that our net proceeds from our sale of the shares of common stock we are offering will be approximately $___________ million assuming a public offering price of $___________.00 per share (the reported closing price of our common stock on The Nasdaq Capital Market on September ____, 2006), after expenses incurred in connection with the offering.

We will invest approximately $_____________ million of the net proceeds in our bank, where these proceeds would be available for general corporate purposes, including the bank s lending and investment activities associated with its current and anticipated growth. Specifically, the Company intends to pursue expansion into the Harrison County, Mississippi market, as well as additional expansion in the Picayune, Pearl River County, Mississippi market. In addition, the Company will use a portion of the proceeds to fund its acquisition of First National Bank of Wiggins in Stone County, Mississippi. We will retain the remaining net proceeds for our general corporate purposes and working capital to position us for future growth opportunities. Pending these uses, the net proceeds will be invested by us in our bank and in a variety of short-term assets, including federal funds, interest-bearing deposits in other banks and similar investments.

CAPITALIZATION

The following table sets forth our capitalization and certain capital ratios as of June 30, 2006. Our capitalization is presented on an actual basis and on an as adjusted basis to reflect the sale of _______ shares of our common stock in this offering and our receipt of $_________ million in estimated net proceeds from this offering, assuming a public offering price of $___________.00 per share (the reported closing price of our common stock on The Nasdaq Capital Market on September ___, 2006) and after deducting the estimated expenses of the offering.

	June 3	
	Actual	A
	(Dollars i except per	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 55,142	
Time, $100,000 or more	58,880	
Interest-bearing	154,615	
TOTAL DEPOSITS	268,637	
Interest payable	665	
Borrowed funds	28,831	
Subordinated debentures	11,217	
Other liabilities	420	
TOTAL LIABILITIES	309,770	
SHAREHOLDERS' EQUITY:		
Common stock, $1 par value. Authorized 10,000,000 shares; 2,406,124 issued at June 30, 2006.	2,406	
Preferred stock, par value $1 per share, 10,000,000 shares authorized; no shares issued or outstanding	-	
Treasury stock, at cost, 26,494 shares at June 30, 2006.	(464)	
Additional paid-in capital	12,067	
Retained earnings	6,063	
Accumulated other comprehensive income (loss)	(613)	
TOTAL SHAREHOLDERS' EQUITY	19,459	
	$ 329,229	

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PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND INFORMATION

Our common stock is currently traded on The Nasdaq Capital Market under the symbol FBMS. Prior to May 26, 2006, our common stock was traded on the over-the-counter bulletin board under the symbol FBMS and before _____________, 20__, our common stock was not traded on any national exchange or other market. In addition, this chart reflects a two-for-one split of our common stock which was effectuated in the form of a 100% stock dividend on March 15, 2006.

The following table shows the high and low sales price information for our common stock for the quarters indicated. For the period prior to ____________, 20__, these sales prices represent known transactions and do not necessarily represent all trading transactions for the periods presented. The market quotations for the period after ____________, 20__, reflect closing sales prices as quoted on The Nasdaq Capital Market or the OTCBB, as applicable.

Year	Period	High	Low
2006:	First Quarter	$ 24.75	$ 15.50
	Second Quarter	26.85	19.95
	Third Quarter (Through Sept. ___, 2006		
2005:	First Quarter	12.50	8.85
	Second Quarter	13.125	10.125
	Third Quarter	13.875	11.525
	Fourth Quarter	17.125	12.50
2004:	First Quarter	8.25	6.555
	Second Quarter	8.75	7.40
	Third Quarter	8.75	7.50
	Fourth Quarter	9.125	7.75

On September ____, 2006, the last reported sale price for our common stock on the Nasdaq Capital Market was $_________.00 per share. The trading in our common stock has generally been limited and occurred at varying prices and may not have created an active market for our common stock. The prices at which trades occurred may not be representative of the actual value of our common stock. At September 7, 2006, we had approximately _____ shareholders of record.

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. In the first quarter of 2005 and 2006, the Company declared and paid dividends of $.10 and $.16 per common share, respectively. Prior to the first quarter of 2005 the Company declared and paid dividends in the first quarter of 2002 of $.05, in the first quarter of 2003 of $.05, and in the first quarter of 2004 of $.075 per common share. Our ability to pay dividends will depend on our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock, including our outstanding trust preferred securities and accompanying junior subordinated debentures, and other factors deemed relevant by our board of directors. In order to pay dividends to shareholders, we must receive cash dividends from our bank. As a result, our ability to pay future dividends will depend upon the earnings of our bank, its financial condition and its need for funds.

Moreover, there are certain regulations that restrict our bank s ability to pay 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. These policies and regulations may have the effect of reducing or eliminating the amount of dividends that we can declare and pay to our shareholders in the future.

SELECTED FINANCIAL DATA

The following table sets forth selected historical consolidated financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations which are included elsewhere in this prospectus. The selected financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 is derived from our consolidated financial statements as audited by T.E.Lott & Company, our independent registered public accounting firm. The selected financial data as of and for the six months ended June 30, 2006 and June 30, 2005 is derived from our unaudited consolidated financial statements for those periods. The unaudited consolidated financial statements include all adjustments, consisting only of normal recurring items, which our management considers necessary for a fair presentation of our financial position and results of operations for these periods. The financial condition and results of operations as of and for the six months ended June 30, 2006 do not purport to be indicative of the financial condition or results of operations to be expected as of or for the fiscal year ending December 31, 2006.

First Bancshares and Subsidiaries - Selected Financial Data

(In Thousands Except Per Share Amounts and Ratios)

	Six Months Ended June 30, (unaudited)		Year Ended Decemb			
	2006	**2005**	**2005**	**2004**	**2003**	**20**
Statements of earnings						
Interest income	10,392	7,020	15,692	11,014	10,486	9,8
Interest expense	3,816	2,347	5,542	3,199	3,177	3,7
Net interest income	6,576	4,673	10,150	7,815	7,309	6,1
Provision for possible loan Losses	294	437	921	672	468	3
Net interest income after provision for possible loan losses	6,282	4,236	9,229	7,143	6,841	5,7
Other operating income	1,123	892	1,682	1,963	1,772	1,6
Other operating expense	4,969	3,837	8,138	7,228	7,134	6,1
Income before income taxes	2,436	1,291	2,773	1,878	1,479	1,2
Income tax expense	688	432	864	635	472	4
Net income	1,748	859	1,909	1,243	1,007	8
Net income per share						
Primary	.74	.37	.81	.54	.43	.
Fully diluted	.69	.35	.77	.52	.42	.
Cash dividends per share	.16	.10	.10	.075	.05	.
Weighted average shares outstanding						
Primary	2,377,802	2,356,746	2,358,308	2,331,970	2,338,102	2,330,3
Fully diluted	2,536,381	2,473,480	2,488,890	2,406,682	2,414,484	2,407,2
Statements of condition - averages						
Total assets	316,485	239,343	252,913	186,440	161,039	147,2
Earning assets	291,826	219,682	231,565	168,474	143,345	131,6
Securities available for sale	57,275	26,618	30,971	24,725	25,121	23,1
Investment securities	57,288	26,632	30,985	24,740	25,141	23,1
Loans, net of unearned income	222,790	187,069	189,187	140,052	112,468	103,0
Deposits	262,605	188,869	199,389	139,264	119,910	115,6
Long-term debt	32,254	31,596	34,759	30,292	24,740	16,0
Total stockholders' equity	18,568	16,780	17,278	16,203	15,698	14,8
Selected ratios						
Return on average assets	1.10	.72	.75	.67	.63	.
Return on average equity	18.82	10.24	11.0	7.7	6.4	5
Net interest margin - tax equivalent	4.51	4.25	4.38	4.64	5.10	4.
*Efficiency ratio	64.54	68.95	68.78	73.92	78.56	78.
Loans to deposits	87.5	98.8	81.4	102.9	93.4	85

Allowance for possible loan losses to loans, net of unearned income	1.12	1.03	1.18	1.01	1.01	1.
Net charge-offs (recoveries) to average loans, net of unearned income	.03	.06	.11	.13	.47	.
Dividend payout	10.81	13.51	12.3	14.2	11.6	13
Average equity to average assets	5.87	7.01	6.8	8.7	9.7	10
Leverage ratio	8.45	9.8	8.0	10.8	12.7	12
Tier 1 risk-based	10.87	12.21	12.0	13.7	16.2	15
Total risk-based	13.69	13.27	12.4	14.6	18.6	19

*Excludes the effects of amortization of goodwill and core deposit intangibles.

Historical Per Share Information

The following table sets forth certain historical with respect to income per share, book value per share and cash dividends per share for the First Bancshares Common Stock. The information that follows should be read in conjunction with the audited historical financial statements and notes thereto of First Bancshares incorporated by reference herein.

Net Income (a)	
For the six months ended June 30, 2006	.74
For the year ended December 31,	
2005	.81
2004	.54
2003	.43
Cash Dividends (b)	
For the six months ended June 30, 2006	.16
For the year ended December 31,	
2005	.10
2004	.075
2003	.05
Book Value (c)	
As of June 30, 2006	8.18
As of December 31, 2005	7.70
As of December 31, 2004	7.08
As of December 31, 2003	6.64

(a) Net income per common share is based on weighted average common shares outstanding.
(b) Cash dividends represent historical cash dividends of First Bancshares.
(c) Book value per common share is based on total period-end shareholders' equity.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Purpose

The purpose of management s discussion and analysis is to make the reader aware of the significant components, events, and changes in the consolidated financial condition and results of operations of the Company and its subsidiaries during the year ended December 31, 2005, and during the six months ended June 30, 2006. The Company s consolidated financial statements and related notes should also be considered.

Critical Accounting Policies

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

Overview

The Company was incorporated on June 23, 1995, and serves as a financial holding company for The First, A National Banking Association (The First), located in Hattiesburg, Mississippi. The First began operations on August 5, 1996, from its main office in the Oak Grove community, which is on the western side of Hattiesburg. The Company organized another bank, the First National Bank of the Pine Belt (Pine Belt) which was formed in Laurel, Mississippi, and began operations on January 19, 1999. In January, 2004, The First and Pine Belt merged into one bank. The First currently operates its main office and two branches in Hattiesburg, one in Laurel, one in Purvis, one in Picayune, and one in Pascagoula, Mississippi. In February, 2006, The First received approval from the Office of the Comptroller of the Currency to open a branch in Bay St. Louis, MS. The Company and its subsidiary bank engages in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns, and individuals. The First is a wholly-owned subsidiary bank of the Company.

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

YEAR-END ANALYSIS

The Company grew from approximately $212.4 million in total assets, $164.4 million in loans, $156.8 million in deposits, and $16.7 million in shareholders equity at December 31, 2004 to approximately $294.4 million in total assets, $200.3 million in loans, $241.9 million in deposits, and $18.5 million in shareholders equity at December 31, 2005. The First reported net income of $2,138,000 and $1,361,000 for the years ended December 31, 2005, and 2004, respectively. For the years ended December 31, 2005 and 2004, the Company reported consolidated net income of $1,909,000 and $1,243,000, respectively. The following discussion should be read in conjunction with the Selected Consolidated Financial Data and the Company s Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere.

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

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

	December 31,			
	2005	2004	2003	2002
Earnings:				
Net interest income	$ 10,150	$ 7,815	$ 7,309	$ 6,136
Provision for loan losses	921	672	468	369
Noninterest income	1,682	1,963	1,772	1,690
Noninterest expense	8,138	7,228	7,134	6,180
Net income	1,909	1,243	1,007	864
Per Share Data:				
Basic net income per share	$ 1.62	$ 1.07	$ .86	$ .74
Diluted net income per share	1.53	1.03	.83	.72
Selected Year End Balances:				
Total assets	$294,390	$212,396	$164,941	$157,427
Securities	50,660	28,522	31,445	25,895
Loans, net of allowance	197,943	162,716	114,076	106,541
Deposits	241,949	156,830	121,698	118,121
Stockholders' Equity	18,478	16,740	15,651	14,923

Results of Operations

The following is a summary of the results of operations by the subsidiary bank for the years ended December 31, 2005 and 2004.

	2005
	(In thousan
Interest income	$ 15,676
Interest expense	5,163
Net interest income	10,513
Provision for loan losses	921
Net interest income after provision for loan losses	9,592
Other income	1,619
Other expense	8,037
Income tax expense	1,036
Net income	$ 2,138

The following reconciles the above table to the amounts reflected in the consolidated financial s
December 31, 2005 and 2004:

	2005
	(In thousa
Net interest income:	
Net interest income of subsidiary bank	$ 10,513
Intercompany eliminations	(363)
	$ 10,150
Net income:	
Net income of subsidiary bank	$ 2,138
Net loss of the Company, excluding intercompany accounts	$ (229)
	$ 1,909

Consolidated Net Income

The Company reported consolidated net income of $1,909,000 for the year ended December 31, 2005, compared to a consolidated net income of $1,243,000 for the year ended December 31, 2004. This was the result of an increase in interest income due to the continued growth of earning assets. The increases in income were partially offset by a net increase in noninterest expense of $910,000, which was the result of anticipated staff additions and other operating costs related to the growth of the subsidiary bank and the opening of the new location in Pascagoula.

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 $10,150,000 for the year ended December 31, 2005, as compared to $7,815,000 for the year ended December 31, 2004. This increase was the direct result of an increase in average earning assets for the year 2005 to $231,565,000 compared to $168,474,000 for the year 2004. This increase in earning assets was funded by an increase in deposits and by Federal Home Loan Bank (FHLB) borrowings. Deposits at December 31, 2005, totaled $241,949,000 compared to $156,830,000 at December 31, 2004. Average interest-bearing liabilities for the year 2005 were $195,382,000 compared to $141,599,000 for the year 2004. At December 31, 2005, the net interest spread, the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.94% compared to 4.28% at December 31, 2004. The net interest margin (which is net interest income divided by average earning assets) was 4.38% for the year 2005 compared to 4.64% for the year 2004. Rates paid on average interest-bearing liabilities increased from 2.26% for the year 2004 to 2.84% for the year 2005. 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 81.7% of average earning assets for the year 2005 compared to 83.1% for the year 2004.

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,					
	2005			2004		
	Average Balance	**Income/ Expense**	**Yield/ Rate**	**Average Balance**	**Income/ Expense**	**Yield/ Rate**
				(Dollars in thousands)		
Assets						
Earning Assets						
Loans (1) (2)	$189,187	$14,097	7.45%	$ 140,052	$10,143	7.2
Tax exempt securities.............	30,985	1,170	3.78%	24,740	814	3.2
Federal funds sold...............	10,564	388	3.67%	2,942	39	1.3
Other............................	829	37	4.46%	740	17	2.3
Total earning assets.......	231,565	15,692	6.78%	168,474	11,013	6.5
Cash and due from banks............	8,380			5,498		
Premises and equipment.............	8,478			8,382		
Other assets.......................	6,507			5,442		
Allowance for loan losses........	(2,017)			(1,356)		
Total assets.....................	$252,913			$186,440		
Liabilities						
Interest-bearing liabilities	$195,382	$ 5,543	2.84%	$141,599	$ 3,198	2.2
Demand deposits (1)................	38,766			27,957		
Other liabilities..................	1,487			681		
Shareholders' equity...............	17,278			16,203		
Total liabilities and shareholders' equity...........................	$252,913			$186,440		
Net interest spread................			3.94%			4.2
Net yield on interest-earning assets		$ 10,149	4.38%		$ 7,815	4.6

(1) All loans and deposits were made to borrowers in the United States. The Company had no during the periods presented. Loans include held for sale loans.
(2) Includes loan fees of $755, $891, and $1,652, respectively.

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

Analysis of Changes in Consolidated Net Interest Income

	Year Ended December 31,	Year Ended December 31
	2005 versus 2004	**2004 versus 2003**

	Increase (decrease) due to			Increase (decrease) due		
	Volume	Rate	Net	Volume	Rate	N
	(Dollars in thousands)					
Earning Assets						
Loans	$ 3,557	$ 397	$3,954	$ 2,369	$(1,882)	$
Securities	205	151	356	(12)	61	
Federal funds sold	247	102	349	(18)	11	
Other short-term investments	2	18	20	(2)	-	
Total interest income	4,011	668	4,679	2,337	(1,810)	
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	56	223	279	6	(25)	
Money market accounts	155	175	330	36	82	
Savings deposits	36	88	124	11	10	
Time deposits	680	585	1,265	(78)	(283)	
Borrowed funds	35	312	347	522	(260)	
Total interest expense	962	1,383	2,345	497	(476)	
Net interest income	$3,049	$ (715)	$2,334	$ 1,840	$(1,334)	

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, 2003, 2004, and 2005.

	December 31, 2003			
	Within Three Months	After Three Through Twelve Months	Within Within One Year	Greate Than One Year Nonsensiti
	(Dollars in thousands)			
Assets				
Earning Assets:				
Loans	$ 36,277	$ 25,077	$ 61,354	$ 53,88
Securities (2)	9,833	323	10,156	21,14
Funds sold and other	518	301	819	
Total earning assets	46,628	25,701	72,329	75,02

Liabilities

Interest-bearing liabilities:				
Interest-bearing deposits:				
NOW accounts (1)...............	$ -	$ 17,340	$ 17,340	$
Money market accounts..........	18,103	-	18,103	
Savings deposits (1)	-	3,457	3,457	
Time deposits..................	14,744	21,538	36,282	26,52
Total interest-bearing deposits.	32,847	42,335	75,182	26,52
Borrowed funds.......................	3,954	3,903	7,857	12,12
Total interest-bearing liabilities	36,801	46,238	83,039	38,65
Interest-sensitivity gap per period...	$ 9,827	$ (20,537)	$(10,710)	$36,37
Cumulative gap at December 31, 2003	$ 9,827	$ (10,710)	$(10,710)	$25,66
Ratio of cumulative gap to total earning assets at December 31, 2003	6.67%	(7.27%)	(7.27%)	17.42

	December 31, 2004			
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year Nonsensiti
		(Dollars in thousands)		
Assets				
Earning Assets:				
Loans..............................	$ 69,419	$ 23,899	$ 93,318	$ 71,05
Securities (2)....................	6,042	3,968	10,010	18,36
Funds sold and other..............	1,267	302	1,569	-
Total earning assets............	76,728	28,169	104,897	89,41
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
NOW accounts (1)..................	$ -	$ 26,100	$ 26,100	$
Money market accounts.............	28,757	-	28,757	
Savings deposits (1)	-	7,129	7,129	
Time deposits.....................	14,082	24,790	38,872	25,60
Total interest-bearing deposits.	42,839	58,019	100,858	25,60
Borrowed funds.......................	6,355	5,213	11,568	19,28
Total interest-bearing liabilities	49,194	63,232	112,426	44,89
Interest-sensitivity gap per period...	$ 27,534	$ (35,063)	$ (7,529)	$44,52
Cumulative gap at December 31, 2004...	$ 27,534	$ (7,529)	$ (7,529)	$36,99
Ratio of cumulative gap to total earning assets at December 31, 2004	14.17%	(3.87%)	(3.87%)	19.04

	December 31, 2005			
	Within Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year Nonsensiti
	(Dollars in thousands)			
Assets				
Earning Assets:				
Loans.............................	$ 81,679	$ 29,211	$110,890	$ 89,41
Securities (2)....................	9,110	5,650	14,760	35,75
Funds sold and other..............	16,639	105	16,744	
Total earning assets............	107,428	34,966	142,394	125,16
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
NOW accounts (1)..................	$ -	$ 29,160	$ 29,160	$
Money market accounts.............	33,122	-	33,122	
Savings deposits (1)	-	17,786	17,786	
Time deposits.....................	11,832	74,169	86,001	26,29
Total interest-bearing deposits.	44,954	121,115	166,069	26,29
Borrowed funds.......................	-	3,999	3,999	21,46
Total interest-bearing liabilities	44,954	125,114	170,068	47,76
Interest-sensitivity gap per period...	$62,474	$ (90,148)	$(27,674)	$ 77,40
Cumulative gap at December 31, 2005...	$62,474	$ (27,674)	$(27,674)	$ 49,73
Ratio of cumulative gap to total earning assets at December 31, 2005	23.3%	(10.3%)	(10.3%)	18.6

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(1) NOW and savings accounts are subject to immediate withdrawal and repricing. These deposits immediately react to changes in interest rates and the Company believes these deposits are a funding source. Therefore, these deposits are included in the repricing period that managem matches the periods in which they are likely to reprice rather than the period in which the contractually.

(2) Securities include mortgage backed and other installment paying obligations based upon state

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

Provision and Allowance for Loan Losses

The Company has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions about future events which it believes to be reasonable, but which may not prove to be accurate, particularly given the Company's short operating history and rapid growth. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

Additions to the allowance for loan losses, which are reported as the provision for loan losses on the Company's consolidated statements of income, are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. The allowance consists of two components: allocated and unallocated. The allocated portion of the allowance is based upon specific allocations to specific loans, including impaired loans, and upon historical loan loss experience of the bank and its peer group ratios. Because the subsidiary bank was recently formed and has not yet established a reliable long term loss experience, management has elected to consider the loss experience of the bank's peer groups in determining an appropriate allowance based upon internal loan grades.

In August 2005, the bank's service area was impacted by Hurricane Katrina. In a significant portion of the service area, the damage can best be described as moderate; however, in our Pascagoula, Mississippi, branch location, the damage can be described as severe. The impact of damage caused by Hurricane Katrina on the quality of the bank's loan portfolio and the related loan loss exposure is extremely difficult to estimate and the situation has created an uncertainty in this regard. The uncertainty arises out of a number of circumstances over which the bank has no control and, at present, an inability to reasonably estimate an effect. The more significant uncertainties are: possible damage to or destruction of assets providing collateral to loans; continuing unresolved issues with insurance companies claiming no liability for damage to insured properties because of flooding, which is not covered under conventional residential and building policies; unknown number of business and individual bank borrowers impacted by business interruptions and related unemployment; and the unknown number of business borrowers that have lost, at least temporarily, a majority of their customer base. In addition, government officials and banking regulators have requested the Bank to extend or renew loans directly impacted by the Hurricane that might have otherwise been considered past due. As a result of this matter, the bank has increased its allowance for loan losses over that which would have resulted from utilization of its historical methodology by $300,000. The ultimate resolution of this matter may have a significant impact on the financial statements of the period in which the matters are resolved, however, as of June 30, 2006, no loss or increased delinquency can be attributed to loans affected by Hurricane Katrina.

The unallocated component reflects management's estimate of the probable inherent but undetected losses within the portfolio due to uncertainties about economic conditions, changes in collateral values and borrower financial condition, as well as other risk factors that have not yet manifested themselves. The unallocated component is based upon the level of the allowance of the bank's peer groups.

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

At December 31, 2005 the consolidated allowance for loan losses amounted to $2,367,000, or 1.18% of outstanding loans. At December 31, 2004 and 2003, the allowance for loan losses amounted to $1,659,000 and $1,166,000, respectively which was 1.01% and 1.01% of outstanding loans at December 31, 2004 and 2003. The Company's provision for loan losses was $921,000 for the year ended December 31, 2005, compared to $672,000 and $468,000 for the years ended December 31, 2004 and 2003, respectively. In each year, the provision was made based on management's assessment of general loan loss risk and asset quality.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis generally using the fair value of the collateral if the loan is collateral dependent. At December 31, 2005 and 2004, loans considered impaired were the same as nonaccrual loans as described in the following paragraph.

The Company discontinues accrual of interest on loans when management believes, after con