FIRST BANCSHARES INC /MO/
Form 10-Q
May 11, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE EXCHANGE ACT

For the transition period from __________ to __________

Commission File Number: 0-22842

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

| | |
|---|---|
| Missouri<br>(State or other jurisdiction of<br>incorporation or organization) | 43-1654695<br>(IRS Employer Identification No.) |

142 East First Street, Mountain Grove, Missouri 65711
(Address of principal executive offices)

(417) 926-5151
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (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___

Indicate by check mark whether registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ( ) No ( )

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

| | |
|---|---|
| Large accelerated filer ( ) | Accelerated filer ( ) |
| Non-accelerated filer ( ) | Smaller reporting company (X) |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 1,550,815 shares outstanding at May 6, 2011.

FIRST BANCSHARES, INC.
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FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Unaudited)

| | March 31, 2011 | | June 30, 2010 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ | 8,895,084 | $ | 20,182,593 |
| Certificates of deposit purchased | | 4,085,578 | | 7,221,578 |
| Securities available-for-sale | | 59,197,013 | | 60,304,479 |
| Securities held to maturity, fair market value at: March 31, 2011, $18,998,059; June 30, 2010, $2,072,084 | | 19,200,449 | | 2,012,940 |
| Federal Home Loan Bank stock, at cost | | 434,000 | | 434,000 |
| Loans receivable, net of allowances for loan losses at: March 31, 2010, $2,593,603; June 30, 2010, $2,526,862 | | 98,572,943 | | 108,683,381 |
| Accrued interest receivable | | 891,748 | | 819,752 |
| Prepaid FDIC insurance premiums | | 873,226 | | 1,196,465 |
| Prepaid expenses | | 285,750 | | 380,487 |
| Property and equipment, net | | 5,994,030 | | 6,051,423 |
| Real estate owned and other repossessed assets | | 5,430,278 | | 3,945,628 |
| Intangible assets, net | | 97,655 | | 135,241 |
| Income taxes recoverable | | 138,360 | | 152,975 |
| Other assets | | 88,402 | | 136,031 |
| Total assets | $ | 204,184,516 | $ | 211,656,973 |
| | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Deposits | $ | 174,173,724 | $ | 180,075,425 |
| Retail repurchase agreements | | 6,554,962 | | 5,352,402 |
| Advances from Federal Home Loan Bank | | 3,000,000 | | 3,000,000 |
| Accrued expenses | | 940,803 | | 617,915 |
| Total liabilities | | 184,669,489 | | 189,045,742 |
| | | | | |
| Preferred stock, $.01 par value; 2,000,000 shares authorized, none issued | | - | | - |
| Common stock, $.01 par value; 8,000,000 shares authorized, 2,895,036 issued at March 31, 2011 | | | | |

| | | | | |
|---|---|---|---|---|
| and June 30, 2010, 1,550,815 shares outstanding at | | | | |
| March 31, 2011 and June 30, 2010 | | 28,950 | | 28,950 |
| Paid-in capital | | 18,060,664 | | 18,056,714 |
| Retained earnings - substantially restricted | | 20,385,107 | | 22,538,555 |
| Treasury stock - at cost; 1,344,221 shares | | (19,112,627 ) | | (19,112,627 ) |
| Accumulated other comprehensive income | | 152,933 | | 1,099,639 |
| Total stockholders' equity | | 19,515,027 | | 22,611,231 |
| Total liabilities and stockholders' equity | $ | 204,184,516 | $ | 211,656,973 |

See notes to consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Interest Income: | | | | |
| Loans receivable | $1,419,859 | $1,796,411 | $4,551,650 | $5,844,724 |
| Securities | 547,369 | 503,069 | 1,624,004 | 1,497,792 |
| Other interest-earning assets | 28,976 | 51,537 | 117,760 | 166,353 |
| Total interest income | 1,996,204 | 2,351,017 | 6,293,414 | 7,508,869 |
| Interest Expense: | | | | |
| Deposits | 426,777 | 717,841 | 1,512,044 | 2,370,439 |
| Retail repurchase agreements | 21,204 | 18,128 | 59,591 | 50,016 |
| Borrowed funds | 37,050 | 37,050 | 112,797 | 143,721 |
| Total interest expense | 485,031 | 773,019 | 1,684,432 | 2,564,176 |
| Net interest income | 1,511,173 | 1,577,998 | 4,608,982 | 4,944,693 |
| | | | | |
| Provision for loan losses | 245,008 | 62,841 | 716,189 | 62,841 |
| Net interest income after provision for loan losses | 1,266,165 | 1,515,157 | 3,892,793 | 4,881,852 |
| Non-interest Income: | | | | |
| Service charges and other fee income | 241,317 | 325,699 | 779,181 | 1,168,291 |
| Gain on sale of loans | 16,522 | - | 19,631 | 32,404 |
| Gain on sale of investments | 299,732 | - | 299,732 | - |
| Gain (loss) on sale of property and equipment and real estate owned | (3,892) | (12,825) | (24,832) | 29,657 |
| Gain (loss) on sale of repossessed assets | - | (20,940) | (38,311) | 1,999 |
| Provision for loss on real estate owned | (201,939) | (6,890) | (701,939) | (134,890) |
| Income from bank-owned life insurance | - | - | - | 15,064 |
| Other | 14,506 | 51,616 | 55,596 | 89,918 |
| Total non-interest income | 366,246 | 336,660 | 389,058 | 1,202,443 |
| Non-interest Expense: | | | | |
| Compensation and employee benefits | 873,574 | 923,759 | 2,592,700 | 2,770,076 |
| Occupancy and equipment | 345,638 | 334,586 | 999,887 | 1,034,287 |
| Professional fees | 263,541 | 127,316 | 609,267 | 390,933 |
| Deposit insurance premiums | 125,023 | 168,976 | 340,840 | 433,502 |
| Other | 345,250 | 457,524 | 1,311,824 | 1,119,714 |
| Total non-interest expense | 1,953,026 | 2,012,161 | 5,854,518 | 5,748,512 |
| Income (loss) before taxes | (320,615) | (160,344) | (1,572,667) | 335,783 |
| Income taxes (benefit) | 293,149 | (51,734) | 580,782 | 198,499 |
| Net income (loss) | $(613,764) | $(108,610) | $(2,153,449) | $137,284 |
| | | | | |
| Earnings (loss) per share – basic | $(0.40) | $(0.07) | $(1.39) | $0.09 |
| Earnings (loss) per share – diluted | (0.40) | (0.07) | (1.39) | 0.09 |
| Dividends per share | 0.00 | 0.00 | 0.00 | 0.00 |

See notes to consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net Income (loss) | $(613,764) | $(108,610) | $(2,153,449) | $137,284 |
| Other comprehensive income (loss), net of tax: | | | | |
| Change in unrealized gain on securities available-for-sale, net of deferred income taxes and reclassification adjustment for gains realized in income | (416,121) | 67,969 | (946,706) | 74,849 |
| Comprehensive income (loss) | $(1,029,885) | $(40,641) | $(3,100,155) | $212,133 |

See notes to consolidated financial statements

FIRST BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Nine Months Ended March 31, 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ (2,153,449) | $ 137,284 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 422,164 | 412,653 |
| Amortization | 37,586 | 37,586 |
| Net amortization of premiums and accretion of (discounts) on securities | 122,581 | (134,249) |
| Stock based compensation | 3,950 | 7,628 |
| Provision for loan losses | 716,189 | 62,841 |
| Provision for losses on real estate owned | 701,939 | 134,890 |
| Gain on the sale of loans | (19,631) | (32,404) |
| Gain on the sale of investments | (299,732) | - |
| Proceeds from sales of loans originated for sale | 1,672,997 | 1,033,210 |
| Loans originated for sale | (1,653,366) | (225,530) |
| Deferred income taxes | 487,697 | 830,877 |
| Loss (gain) on sale of property and equipment and real estate owned | 24,832 | (29,237) |
| Loss (gain) on sale of repossessed assets | 38,311 | (1,999) |
| Income from bank-owned life insurance | - | (15,064) |
| Net change in operating accounts: | | |
| Accrued interest receivable and other assets | 393,609 | (881,369) |
| Deferred loan costs | 14,328 | 14,326 |
| Income taxes recoverable | 14,615 | 120,837 |
| Accrued expenses | 322,889 | (594,124) |
| Net cash provided by operating activities | 847,509 | 878,156 |
| | | |
| Cash flows from investing activities: | | |
| Purchase of certificates of deposit purchased | (2,399,000) | (7,475,920) |
| Maturities of certificates of deposit purchased | 5,535,000 | 4,299,407 |

| | | |
|---|---|---|
| Purchase of securities available-for-sale | (36,202,920) | (28,552,954) |
| Proceeds from maturities of securities available-for-sale | 29,975,531 | 15,440,794 |
| Purchase of securities held to maturity | (17,936,733) | - |
| Proceeds from maturities of securities held to maturity | 593,840 | 486,108 |
| Proceeds from the sale of securities | 6,232,987 | - |
| Proceeds from redemption of Federal Home Loan Bank stock | - | 1,107,000 |
| Net decrease in loans receivable | 6,669,916 | 15,888,738 |
| Proceeds from redemption of bank owned life insurance policies | - | 2,169,089 |
| Purchases of property and equipment | (364,771) | (160,762) |
| Net proceeds from sale of property and equipment | - | 313,471 |
| Investment in real estate owned and repossessed assets | (7,500) | - |
| Net proceeds from sale of real estate owned and repossessed assets | 467,773 | 1,211,419 |
| Net cash provided by (used by) investing activities | (7,435,877) | 4,726,390 |
| | | |
| Cash flows from financing activities: | | |
| Net change in deposits | (5,901,701) | (8,569,483) |
| Net change in retail repurchase agreements | 1,202,560 | (177,591) |
| Repayment of borrowed funds | - | (7,000,000) |
| Net cash used by financing activities | (4,699,141) | (15,747,074) |
| Net decrease in cash and cash equivalents | (11,287,509) | (10,142,528) |
| Cash and cash equivalents - beginning of period | 20,182,593 | 26,217,607 |
| Cash and cash equivalents - end of period | $ 8,895,084 | $ 16,075,079 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest on deposits and borrowed funds | $ 1,747,290 | $ 2,730,088 |
| Income taxes | - | 350 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Loans transferred to real estate acquired in settlement of loans | $ 2,710,005 | $ 3,683,726 |

See notes to consolidated financial statements

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FIRST BANCSHARES, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed for interim reporting by First Bancshares, Inc. (the "Company") and its consolidated subsidiaries, First Home Savings Bank (the "Bank") and SCMG, Inc. are consistent with the accounting policies followed for annual financial reporting. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. The accompanying consolidated statement of financial condition as of June 30, 2010, which has been derived from audited financial statements, and the unaudited interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2010. The results for the interim periods reported may not be indicative of results for the entire year or for any other period.

2. ACCOUNTING DEVELOPMENTS

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820); Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires new disclosures on transfers into and out of Level 1 and 2 measurements of the fair value hierarchy and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchase, sales, issuances, and settlements on a gross basis, which is effective for fiscal years beginning after December 15, 2010. The adoption of this pronouncement has not had a significant impact on the Company’s consolidated financial statements.

In April 2010, FASB issued ASU No. 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset—a consensus of the FASB Emerging Issues Task Force (Topic 310). ASU No. 2010-18 clarifies that a creditor should not apply specific guidance in ASC 310, Receivables, 40, Troubled Debt Restructurings by Creditors, to acquired loans accounted for as a pooled asset under ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. However, that guidance in ASC 310-30 continues to apply to acquired loans within the scope of ASC 310-30 that a creditor accounts for individually. This amended guidance is effective for a modification of a loan(s) accounted for within a pool under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amended guidance must be applied prospectively, and early application is permitted. Upon initial application of the amended guidance, an entity may make a one-time election to terminate accounting for loans as a pool under ASC 310-30. An entity may make the election on a pool-by-pool basis. The election does not preclude an entity from applying pool accounting to future acquisitions of loans with credit deterioration.

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The implementation of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which requires significant new disclosures about the allowance for credit losses (also known as "allowance for estimated losses on loans/leases") and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings are required. The disclosures are presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. This ASU is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company has included these disclosures in the notes to the consolidated financial statements beginning with the quarter ended December 31, 2010.

## 3 LOANS RECEIVABLE, NET

At March 31, 2011 and June 30, 2010, loans consisted of the following:

| | (Dollars in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2011 | | | | June 30, 2010 | | | |
| Type of Loan | | Amount | Percent | | | Amount | Percent | |
| Mortgage Loans: | | | | | | | | |
| Residential | $ | 56,011 | 55.47 | % | $ | 60,217 | 54.24 | % |
| Commercial Real Estate | | 30,811 | 30.51 | | | 34,573 | 31.15 | |
| Land | | 3,682 | 3.65 | | | 4,358 | 3.93 | |
| Second Mortgage Loans | | 4,328 | 4.29 | | | 4,469 | 4.03 | |
| Total Mortgage Loans | | 94,832 | 93.92 | | | 103,617 | 93.35 | |
| Consumer Loans: | | | | | | | | |
| Automobile Loans | | 873 | 0.86 | | | 1,127 | 1.02 | |
| Savings Account Loans | | 1,096 | 1.09 | | | 1,181 | 1.06 | |
| Mobile Home Loans | | 150 | 0.15 | | | 188 | 0.17 | |
| Other Consumer Loans | | 261 | 0.26 | | | 392 | 0.35 | |
| Total Consumer Loans | | 2,380 | 2.36 | | | 2,888 | 2.60 | |
| Commercial Business Loans | | 3,752 | 3.72 | | | 4,491 | 4.05 | |
| Total Loans | | 100,964 | 100.00 | % | | 110,996 | 100.00 | % |
| Add: Unamortized deferred loan costs, | | | | | | | | |
| net of origination fees | | 203 | | | | 214 | | |
| Less :Allowance for possible loan losses | | 2,594 | | | | 2,527 | | |
| Total Loans Receivable, net | $ | 98,573 | | | $ | 108,683 | | |

Loan Origination Risk Management. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial business and commercial real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial business loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial business loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial business loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At March 31, 2011, approximately 44.6% of the outstanding principal balances of the Company's commercial real estate loans were secured by owner-occupied properties.

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

The Company originates consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value, collection remedies, the total aggregate balance to one borrower and documentation requirements.

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Concentrations of Credit. Most of the Company's lending activity occurs within the State of Missouri, including eleven counties surrounding one of the largest metropolitan area in the State of Missouri, Springfield, as well as other markets. The majority of the Company's loan portfolio consists of 1-4 family home loans and commercial and commercial real estate loans. As of March 31, 2011 and 2010, there were no concentrations of loans related to any single industry in excess of 10% of total loans.

Related Party Loans. In the ordinary course of business, the Company has granted loans to certain directors, executive officers and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans during the nine months ended March 31, 2011 is presented in the following table.

| | |
|---|---|
| Balance outstanding at June 30, 2010 | $ 627,570 |
| Principal additions | - |
| Principal reductions | (39,989) |
| Balance at March 31, 2011 | $ 587,581 |

Non-Accrual and Past Due Loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-accrual loans segregated by class of loan at March 31, 2011 and June 30, 2010 were as follows:

| | (Amounts in Thousands) | |
|---|---|---|
| | March 31, 2011 | June 30, 2010 |
| Non-Accrual Loans | | |
| Real Estate: | | |
| Residential | $ 363 | $ 258 |

| | | |
|---|---|---|
| Commercial and Land | 1,304 | 3,587 |
| Commercial Business | 57 | 82 |
| Consumer | - | - |
| Total Non-Accrual Loans | $ 1,724 | $ 3,927 |

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Had non-accrual loans performed in accordance with their original contract terms, the Company would have recognized additional interest income, net of tax, of approximately $30,000 and $83,000 during the three month and nine month periods ended March 31, 2011, respectively.

An age analysis of past due loans segregated by class of loans, as of March 31, 2011 was as follows:

| | (Amounts in Thousands) | | | | |
|---|---|---|---|---|---|
| Type of Loan | Loans 30 - 89 Days Past Due | 90+ Days Past Due | Total Past Due Loans | Current Loans | Total Loans |
| Mortgage Loans: | | | | | |
| Residential | $ 642 | $ 477 | $ 1,119 | $ 54,892 | $ 56,011 |
| Commercial Real Estate | 1,138 | 1,154 | 2,292 | 28,519 | 30,811 |
| Land | - | - | - | 3,682 | 3,682 |
| Second Mortgage Loans | 19 | 10 | 29 | 4,299 | 4,328 |
| Total Mortgage Loans | 1,799 | 1,641 | 3,440 | 91,392 | 94,832 |
| Consumer Loans: | | | | | |
| Automobile Loans | 4 | - | 4 | 869 | 873 |
| Savings Account Loans | - | - | - | 1,096 | 1,096 |
| Mobile Home Loans | - | - | - | 150 | 150 |
| Other Consumer Loans | 35 | - | 35 | 226 | 261 |
| Total Consumer Loans | 39 | - | 39 | 2,341 | 2,380 |
| Commercial Business Loans | 166 | 57 | 223 | 3,529 | 3,752 |
| Total Loans | $ 2,004 | $ 1,698 | $ 3,702 | $ 97,262 | $ 100,964 |

There was one residential mortgage loan of $261,000 that was 90 days or more delinquent and continuing to accrue interest at March 31, 2011. It is included in the 90+ Days Past Due column in the table above.

Impaired Loans. Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis for all loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired loans at March 31, 2011 are set forth in the following table. No interest income was recognized on impaired loans subsequent to their classification as impaired.

| March 31, 2011 | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Allowance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|---|---|
| | $ 978,819 | $ 262,227 | $ 625,091 | $ 887,318 | $ 91,501 | $ 935,096 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential Real Estate | | | | | | |
| Commercial Real Estate | 4,409,145 | 443,411 | 3,085,349 | 3,528,760 | 880,385 | 4,423,698 |
| Land | 154,043 | 67,925 | 66,138 | 134,063 | 19,980 | 395,004 |
| Commercial Business | 720,376 | - | 374,758 | 374,758 | 345,618 | 390,622 |
| Consumer | - | - | - | - | - | - |
| | $ 6,262,383 | $ 773,563 | $ 4,151,336 | $ 4,924,899 | $ 1,337,484 | $ 6,114,420 |

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| June 30, 2010 | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Allowance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|---|---|
| Residential Real Estate | $ 1,052,316 | $ 150,301 | $ 736,296 | $ 886,597 | $ 165,719 | $ 1,378,760 |
| Commerciall Real Estate | 7,034,762 | 598,153 | 5,395,146 | 5,993,299 | 1,041,463 | 3,027,617 |
| Land | 480,296 | 387,097 | 73,219 | 460,316 | 19,980 | 1,453,010 |
| Commercial Business | 587,745 | 491,459 | 86,930 | 578,389 | 9,356 | 1,176,730 |
| Consumer | - | - | - | - | - | 3,815 |
| | $ 9,155,119 | $ 1,627,010 | $ 6,291,591 | $ 7,918,601 | $ 1,236,518 | $ 7,039,932 |

Credit Quality Indicator. As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) non-performing loans (see details above) and (v) the general economic conditions in the State of Missouri.

The Company utilizes a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grades is as follows:

- Grades 1 and 2 - These grades include loans to very high credit quality borrowers. These borrowers (grades 1 and 2), generally have significant capital strength, moderate leverage, stable earnings, growth, and readily available financing alternatives.

- Grades 3 - This grade includes loans that are "pass grade" loans to borrowers of acceptable credit quality and risk. These borrowers have satisfactory asset quality and liquidity, adequate debt capacity and coverage, and good management in critical positions.

- Grades 4 - This grade includes loans that require ”increased management attention”. These borrowers generally have limited additional debt capacity and modest coverage and average or below average asset quality, margins, and market share.

- Grade 5 - This grade is for "Other Assets Especially Mentioned" in accordance with regulatory guidelines. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation.

- Grade 6 - This grade includes "Substandard" loans, in accordance with regulatory guidelines, for which the accrual of interest has not been stopped. By definition under regulatory guidelines, a "Substandard" loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. Also, included in "Substandard" loans, in accordance with regulatory guidelines, are loans for which the accrual of interest has been stopped. This grade includes loans where interest is more than 90 days past due and not fully secured and loans where a specific valuation allowance may be necessary.

- Grade 7 - This grade includes "Doubtful" loans in accordance with regulatory guidelines. Such loans are placed on non-accrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty. Additionally, these loans generally have a specific valuation allowance in excess of 30% of the principal balance.

- Grade 8 - This grade includes "Loss" loans in accordance with regulatory guidelines. Such loans are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

The following table presents weighted average risk grades and classified loans by class of commercial loan. Classified loans include loans in Risk Grades 6, 7 and 8.

| | March 31, 2011 | | June 30, 2010 | |
|---|---|---|---|---|
| | Weighted Average Risk Grade | Classified Loans | Weighted Average Risk Grade | Classified Loans |
| Commercial Real Estate | 3.47 | $ 3,085,349 | 3.53 | $ 5,395,146 |
| Land | 3.31 | 66,138 | 3.22 | 73,219 |
| Commercial Business | 3.85 | 486,065 | 3.73 | 86,930 |
| Total | | $ 3,637,552 | | 5,555,295 |

Note: Classified loan amounts are net of specific reserve

Net (charge-offs)recoveries, segregated by class of loans, were as follows:

| | (Dollars in thousands) Nine Months Ended March 31, 2011 | Year Ended June 30, 2010 |
|---|---|---|
| Mortgage Loans | $ (675 ) | $ (1,814 ) |
| Commercial Business Loans | 24 | (840 ) |
| Consumer Loans | 2 | (7 ) |
| Total | $ (649 ) | $ (2,661 ) |

In assessing the general economic conditions in the State of Missouri, management monitors and tracks the State and Counties Unemployment Rates, DJIA, S&P 500, NASDAQ, Fed Funds, Prime Rate, Crude, Gold, Libor and Springfield Builder Permits. Management believes these indexes provide a reliable indication of the direction of overall economy from expansion to recession throughout the United States and in the State of Missouri.

Allowance for Possible Loan Losses. The allowance for possible loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's allowance for possible loan loss methodology includes allowance allocations calculated in accordance with U.S. GAAP calculated in accordance with ASC 450 and ASC 310 . Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for possible loan losses is designed to account for credit deterioration as it occurs. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to non- accrual loans, past due loans, potential problem loans, criticized loans and net charge-offs or recoveries, among other factors. The provision for possible loan losses also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance for possible loan losses related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including, among other things, the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for possible loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship manager level for all commercial loans. When a loan has a calculated Risk Grade of 6 or higher, the officer analyzes the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance for possible loan losses to the loan. Specific valuation allowances are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Company calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss ratios are periodically updated based on actual charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool. The Company's pools of similar loans include similarly risk-graded groups of commercial and industrial loans, commercial real estate loans, consumer real estate loans and consumer and other loans.

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) the experience, ability and effectiveness of the Bank's lending management and staff; (ii) the effectiveness of the Company's loan policies, procedures and internal controls; (iii) changes in asset quality; (iv) changes in loan portfolio volume; (v) the composition and concentrations of credit; (vi) the impact of competition on loan structuring and pricing; (vii) the effectiveness of the internal loan review function; (viii) the impact of environmental risks on portfolio risks; and (ix) the impact of rising interest rates on portfolio risk. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. Each component is determined to have either a high, moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general valuation allowance.

Included in the general valuation allowances are allocations for groups of similar loans with risk characteristics that exceed certain concentration limits established by management. Concentration risk limits have been established, among other things, for certain industry concentrations, large balance and highly leveraged credit relationships that exceed specified risk grades, and loans originated with policy exceptions that exceed specified risk grades.

Loans identified as losses by management, internal/external loan review and/or bank examiners are charged-off. Furthermore, consumer loan accounts are charged-off automatically based on regulatory requirements.

The following table details activity in the allowance for possible loan losses by portfolio segment for the year ended June 30, 2010 and the nine month period ended March 31, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

| | (Amounts in Thousands) | | | |
|---|---|---|---|---|
| | Mortgage Loans | Commercial Business Loans | Consumer Loans | Total |
| March 31, 2011: | | | | |
| Balance – June 30, 2010 | $ 2,273 | $ 234 | $ 20 | $ 2,527 |
| Provision for loan losses | 441 | 276 | (1) | 716 |
| Charge-offs | (721) | (17) | (11) | (749) |
| Recoveries | 46 | 41 | 13 | 100 |
| Net (Charge-offs) / Recoveries | (675) | 24 | 2 | (649) |
| Balance – March 31, 2011 | $ 2,039 | $ 534 | $ 21 | $ 2,594 |
| Period-end amount allocated to: | | | | |
| Loans individually evaluated for impairment | $ 991 | $ 346 | $ - | $ 1,337 |
| Loans collectively evaluated for impairment | 1,048 | 188 | 21 | 1,257 |
| Balance – March 31, 2011 | $ 2,039 | $ 534 | $ 21 | $ 2,594 |

| | | | | |
|---|---|---|---|---|
| June 30, 2010: | | | | |
| Balance –June 30, 2009 | $2,073 | $2,027 | $86 | $4,186 |
| Provision for loan losses | 1,864 | (953) | (59) | 852 |
| Transfer from reserve on Letters of Credit | 150 | - | - | 150 |
| Charge-offs | (1,853) | (1,034) | (28) | (2,915) |
| Recoveries | 39 | 194 | 21 | 254 |
| Net (Charge-offs) / Recoveries | (1,814) | (840) | (7) | (2,661) |
| Balance –June 30, 2010 | $2,273 | $234 | $20 | $2,527 |
| | | | | |
| Period-end amount allocated to: | | | | |
| Loans individually evaluated for impairment | $1,227 | $10 | $- | $1,237 |
| Loans collectively evaluated for impairment | 1,046 | 224 | 20 | 1,290 |
| Balance –June 30, 2010 | $2,273 | $234 | $20 | $2,527 |

The Company's recorded investment in loans as of March 31, 2011 and June 30, 2010 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

(Amounts in Thousands)

| | Mortgage Loans | Commercial Business Loans | Consumer Loans | Total Loans |
|---|---|---|---|---|
| March 31, 2011 | | | | |
| Loans individually evaluated for impairment | $ 4,769 | $ 720 | $ - | $ 5,489 |
| Loans collectively evaluated for impairment | 90,063 | 3,032 | 2,380 | 95,475 |
| Ending Balance | $ 94,832 | $ 3,752 | $ 2,380 | $ 100,964 |
| | | | | |
| June 30, 2010 | | | | |
| Loans individually evaluated for impairment | $ 7,582 | $ 96 | $ - | $ 7,678 |
| Loans collectively evaluated for impairment | 96,035 | 4,395 | 2,888 | 103,318 |
| Ending Balance | $ 103,617 | $ 4,491 | $ 2,888 | $ 110,996 |

4. EARNINGS PER SHARE

Basic earnings per share is based on net income or loss divided by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the effect, if any, of the issuance of shares eligible to be issued pursuant to stock option agreements.

The table below presents the numerators and denominators used in the basic earnings (loss) per common share computations for the three and nine month periods ended March 31, 2011 and 2010.

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Nine Months Ended March 31, 2011 | Nine Months Ended March 31, 2010 |
|---|---|---|---|---|
| Basic earnings (loss) per common share: | | | | |
| Numerator: | | | | |
| Net income (loss) | $(613,764) | $(108,610) | $(2,153,449) | $ 137,284 |
| Denominator: | | | | |
| Weighted average common shares outstanding | 1,550,815 | 1,550,815 | 1,550,815 | 1,550,815 |
| Basic earnings (loss) per common share | $(0.40) | $(0.07) | $(1.39) | $0.09 |
| Diluted earnings (loss) per common share: | | | | |
| Numerator: | | | | |
| Net income (loss) | $(613,764) | $(108,610) | $(2,153,449) | $ 137,284 |
| Denominator: | | | | |
| Weighted average common shares outstanding | 1,550,815 | 1,550,815 | 1,550,815 | 1,550,815 |
| Basic earnings (loss) per common share | $(0.40) | $(0.07) | $(1.39) | $0.09 |

5. COMMITMENTS

At March 31, 2011 and June 30, 2010, the Company had outstanding commitments to originate loans totaling $1.4 million and $594,000, respectively. It is expected that outstanding loan commitments will be funded with existing liquid assets.

6. STOCK OPTION PLAN

The Company uses historical data to estimate the expected term of the options granted, volatilities, and other factors. Expected volatilities are based on the historical volatility of the Company’s common stock over a period of time. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend rate is equal to the dividend rate in effect on the date of grant. There were no grants made during either the fiscal year ended June 30, 2010 or the nine months ended March 31, 2011. The exercise price of options granted under the Company’s incentive plans is equal to the fair market value of the underlying stock at the grant date. The Company assumes no projected forfeiture rates on its stock-based compensation.

A summary of option activity under the 2004 Stock Option Plan ("Plan") as of March 31, 2011, and changes during the nine months ended March 31, 2011, is presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Term ( in months) |
|---|---|---|---|
| Outstanding at beginning of period | 22,000 | $ 16.95 | 76 |
| Granted | - | - | |
| Exercised | - | - | |
| Forfeited or expired | - | - | |
| Outstanding at end of period | 22,000 | $ 16.95 | 67 |
| Exercisable at end of period | 16,000 | $ 16.95 | |

A summary of the Company's non-vested shares as of March 31, 2011, and changes during the nine months ended March 31, 2011, is presented below:

| Non-vested Options | Options | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding at beginning of period | 6,400 | $ 6.11 |
| Granted | - | - |
| Exercised | - | - |
| Vested | 400 | 6.40 |
| Forfeited or expired | - | - |
| Outstanding at end of period | 6,000 | $ 6.09 |

As of March 31, 2011, there was $1,900 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately five months.

7. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820-10 defines fair value, establishes a hierarchy for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. This hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. For equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date. For all other securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Impaired Loans. The Company does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Impaired loans measured at fair value typically consist of loans on non-accrual status and loans with a portion of the allowance for loan losses allocated specifically to the loan. Collateral values are estimated using Level 2 inputs, including recent appraisals and Level 3 inputs based on customized discounting criteria. As a result of the significance of the Level 3 inputs, impaired loans fair values have been classified as Level 3.

Real Estate Owned. Real estate owned represents property acquired through foreclosure and settlement of loans. Property acquired is carried at the lower of the principal amount of the loan outstanding at the time of acquisition, plus any acquisition costs, or the estimated fair value of the property, less disposal costs. The Company considers third party appraisals, as well as independent fair value assessments from realtors or persons involved in selling real estate owned in determining the fair value of particular properties. Accordingly, the valuation of real estate owned is subject to significant external and internal judgment. The Company periodically reviews real estate owned to determine whether the property continues to be carried at the lower of the recorded book value or the fair value of the property, less disposal costs. As such, the Company classifies real estate owned subjected to non-recurring fair value adjustments as Level 3.

The following tables summarize financial assets measured at fair value on a recurring basis as of March 31, 2011 and June 30, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| March 31, 2011 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| | | (dollars in thousands) | | |
| Securities available-for-sale: | | | | |
| U. S. Agency securities | $ 1,983 | $ 24,550 | $ - | $ 26,533 |
| Residential mortgage-backed securities | - | 32,277 | - | 32,277 |
| Municipal securities | - | 111 | - | 111 |
| Other | - | 276 | - | 276 |
| Total | $ 1,983 | $ 57,214 | $ - | $ 59,197 |

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Inputs |
|---|---|---|---|---|
| June 30, 2010 | | (dollars in thousands) | | |
| Securities available-for-sale: | | | | |
| U. S. Agency securities | $ 5,100 | $ 21,928 | $ - | $ 27,028 |
| Residential mortgage-backed securities | - | 32,868 | - | 32,868 |
| Municipal securities | - | 132 | - | 132 |
| Other | - | 276 | - | 276 |

| | | | | |
|---|---|---|---|---|
| Total | $ 5,100 | $ 55,204 | $ - | $ 60,304 |

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is

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evidence of impairment). Financial assets and financial liabilities, excluding impaired loans, real estate owned and other repossessed assets, measured at fair value on a non-recurring basis were not significant at March 31, 2011.

The following tables summarize financial assets measured at fair value on a non-recurring basis as of March 31, 2011 and June 30, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| March 31, 2011 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Impaired loans | $ - | $ - | $ 4,773 | $ 4,773 |
| Real estate owned | - | - | 5,430 | 5,430 |
| Total | $ - | $ - | $ 10,203 | $ 10,203 |

| June 30, 2010 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Impaired loans | $ - | $ - | $ 8,360 | $ 8,360 |
| Real estate owned | - | - | 3,885 | 3,885 |
| Other repossessed assets | - | - | 61 | 61 |
| Total | $ - | $ - | $ 12,306 | $ 12,306 |

8 DEFERRED INCOME TAXES

Due to the cumulative operating losses over the last five years, which resulted in $3.1 million of loss carry-forwards, the Company was required to provide a reserve of approximately $1.1 million against its net deferred tax assets during the fiscal year ended June 30, 2010. During the nine months ended March 31, 2011, the Company was required to record an additional $581,000 to provide a full valuation allowance on the net deferred tax assets.

9. RECLASSIFICATIONS

Certain amounts in the prior period financial statements have been reclassified, with no effect on net income or loss or stockholders' equity, to be consistent with the current period classification.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

First Bancshares, Inc. (the "Company") is a unitary savings and loan holding company whose primary assets are First Home Savings Bank (the "Bank") and SCMG, Inc. The Company was incorporated on December 31, 1993, for the purpose of acquiring all of the capital stock of First Home Savings Bank in connection with the Bank's conversion from a state-charted mutual to a state-chartered stock form of ownership. The transaction was completed on December 22, 1993.

On March 31, 2011, the Company had total assets of $204.2 million, net loans receivable of $98.6 million, total deposits of $174.2 million and stockholders' equity of $19.5 million. The Company's common shares trade on The NASDAQ Global Market of The NASDAQ Stock Market LLC under the symbol "FBSI."

The following discussion focuses on the consolidated financial condition of the Company and its subsidiaries, at March 31, 2011, compared to June 30, 2010, and the consolidated results of operations for the three-month and nine-month periods ended March 31, 2011, compared to the three-month and nine-month periods ended March 31, 2010, respectively. This discussion should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended June 30, 2010.

### Recent Developments and Corporate Overview

#### Economic Conditions

The economic decline that began in calendar 2008, and which has continued to varying degrees though the first quarter of calendar 2011, has created significant challenges for financial institutions such as First Home Savings Bank. Dramatic declines in the housing market, marked by falling home prices and increasing levels of mortgage foreclosures, have resulted in significant write-downs of asset values by many financial institutions, including government-sponsored entities and major commercial and investment banks. In addition, many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers, including other financial institutions, as a result of concern about the stability of the financial markets and the strength of counterparties. While the economy has recently shown some small signs of improvement, no upward trend seems to have been established.

#### Regulatory Matters

On August 17, 2009, the Company and the Bank each entered into a Stipulation and Consent to the Issuance of Order to Cease and Desist from the OTS (collectively the "Orders").

Under the terms of the Orders, the Bank and the Company, without the prior written approval of the OTS, may not:

- increase assets during any quarter;
- pay dividends;
- increase brokered deposits;
- repurchase shares of the Company's outstanding common stock; and
- issue any debt securities or incur any debt (other than that incurred in the normal course of business).

Other material provisions of the Orders require the Bank and the Company to:

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- develop a business plan for enhancing, measuring and maintaining profitability, increasing earnings, improving liquidity, maintaining capital levels, acceptable to the OTS;
- ensure the Bank's compliance with applicable laws, rules, regulations and agency guidelines, including the terms of the order;
- not appoint any new director or senior executive officer or change the responsibilities of any current senior executive officers without notifying the OTS;
- not enter into, renew, extend or revise any compensation or benefit agreements for directors or senior executive officers;
- not make any indemnification, severance or golden parachute payments;
- enhance its asset classification policy;
- provide progress reports to the OTS regarding certain classified assets;
- submit a comprehensive plan for reducing classified assets;
- develop a plan to reduce its concentration in certain loans contained in the loan portfolio and that addresses the assessment, monitoring and control of the risks associated with the commercial real estate portfolio;
- not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Bank, or that is outside the normal course of business; and
- prepare and submit progress reports to the OTS.

The Orders will remain in effect until modified or terminated by the OTS.

All customer deposits remain insured to the fullest extent permitted by the FDIC since entering into the Orders. The Bank has continued to serve its customers in all areas including making loans, establishing lines of credit, accepting deposits and processing banking transactions. Neither the Company nor the Bank admitted any wrongdoing in entering into the respective Stipulation and Consent to the Issuance of a Cease and Desist Order. The OTS did not impose or recommend any monetary penalties.

For additional information regarding the terms of the orders, please see our Form 8-K that we filed with the SEC on August 18, 2009. Further, we may be subject to more severe future regulatory enforcement actions, including but not limited to civil money penalties, if we do not comply with the terms of the Orders.

Review of Loan Portfolio

Since November 2008, in light of a continually worsening economy and the departure of several loan officers, the Bank has conducted ongoing, in depth reviews and analyses of the loans in its portfolio, primarily focusing on its commercial real estate, multi-family, development and commercial business loans. During the year ended June 30, 2009, based primarily on this ongoing loan review, and in light of the economic conditions, the Bank recorded a provision for loan losses of $5.3 million for the year. During the year ended June 30, 2010, an additional provision for loan losses totaling $852,000 was recorded by the Company. During the three and nine months ended March 31, 2011, additional provisions for loan losses of $245,000 and $ 716,000, respectively, were recorded.

Beginning with the quarter ended December 31, 2009, the Company has engaged the services of a consultant with an extensive background in commercial real estate, multi-family, development and commercial business lending. The purpose of hiring the consultant was to assist the Company and the Bank in meeting reporting deadlines established in the Orders and, to validate the methodology used internally to review, evaluate and analyze loans. This consultant performed an extensive review of the Company's credits of $250,000 or larger during the quarter ended September 30, 2009 and has performed follow up reviews during each quarter since the first review through the quarter ended March 31, 2011.

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Litigation

On January 21, 2011 a jury verdict was entered against the Company and the Bank in the Circuit Court of Ozark County, Missouri, following a jury trial in a claim made by a former employee of the Bank relating to her termination from the Bank in 2007. The former employee claimed that the Bank wrongfully terminated her as a result of her reporting to superiors and Board members what she believed to be illegal activities of two former presidents of the Bank. This alleged cause of action in Missouri is commonly known as a whistleblower lawsuit. Protection for whistleblowers has been carved out as a protected class of employees who, as with certain other classes, such as gender, age, and race for example, cannot be terminated as a result of reporting alleged illegal activities. The jury verdict was against the Bank for $182,000 in compensatory damages (lost wages) and for punitive damages in the amount of $235,000, or a total of $417,000. The Bank believes that the verdict relating to the alleged reporting by the former employee of illegal activities is contrary to the facts and the law, and the Bank filed post-trial motions including a motion for a new trial and other relief. The post-trial motions were denied by the court, and the Bank has filed a notice of appeal. The Bank anticipates its appeal will be filed in either June or July 2011. During the quarter ended December 31, 2010, the Bank recorded a liability in the amount of $300,000 in connection with this litigation in anticipation of the final amount it will owe the plaintiff.

Financial Condition

As of March 31, 2011, First Bancshares, Inc. had assets of $204.2 million, compared to $211.7 million at June 30, 2010. The decrease in total assets of $7.5 million, or 3.5%, was the result of a decrease of $11.3 million, or 55.9%, in cash and cash equivalents, and a decrease of $10.1 million, or 9.3%, in loans receivable. These decreases were partially offset by increases of $16.1 million, or 25.8%, in investment securities and $1.5 million, or 37.6% in real estate owned and other repossessed assets. Deposits decreased $5.9 million, or 3.3%, and retail repurchase agreements increased by $1.2 million, or 22.5%.

Loans receivable, net totaled $98.6 million at March 31, 2011, a decrease of $10.1 million, or 9.3%, from $108.7 million at June 30, 2010. The decrease in loans is, in part, the result of decreased originations because of the current uncertainty in the economy, both local and national. These problems have affected many sectors of the economy and have created concerns for individuals and businesses. Housing sales, both new and existing, consumer confidence and other indicators of economic health in our market area have decreased over the last two years. Additionally, net loans totaling $2.7 million were transferred to real estate owned during the nine months ended March 31, 2011.

The Company's deposits decreased by $5.9 million, or 3.3%, from $180.1 million as of June 30, 2010 to $174.2 million as of March 31, 2011. The decrease was primarily the result of lower offering rates on most of the Company's deposit products. The decision to lower interest rates was made to reposition the Company relative to other financial institutions in its market areas, thereby providing better control over deposit cash flows and cost of funds. The Company's retail repurchase agreements increased by $1.2 million, or 22.5%, from $5.4 million at June 30, 2010 to $6.6 million at March 31, 2011.

As of March 31, 2011 the Company's stockholders' equity totaled $19.5 million, compared to $22.6 million as of June 30, 2010. The $3.1 million decrease was attributable to the net loss of $2.2 million during the nine months ended March 31, 2011, and by a negative change in the mark-to-market adjustment, net of taxes, of $947,000 on the Company's available-for-sale securities portfolio. There was a small increase in stockholders' equity of $4,000 resulting from the accounting treatment of stock based compensation. There were no dividends paid during the nine months ended March 31, 2011.

Non-performing Assets and Allowance for Loan Losses

Generally, when a loan becomes delinquent 90 days or more, or when the collection of principal or interest becomes doubtful, the Company will place the loan on non-accrual status and, as a result of this action, previously accrued interest income on the loan is reversed against current income.  The loan will remain on non-accrual status until the loan has been brought current or until other circumstances occur that provide adequate assurance of full repayment of interest and principal.

Non-performing assets decreased from $13.1 million, or 6.2% of total assets, at June 30, 2010 to $11.0 million, or 5.4% of total assets at March 31, 2011.  The Bank's non-performing assets consist of non-accrual loans, past due loans over 90 days, impaired loans not past due or past due less than 90 days, real estate owned and other repossessed assets. The decrease in non-performing assets consisted of a decrease of $2.2 million in non-accrual loans, a decrease of $1.6 million in impaired loans not past due and a decrease of $60,000 in other repossessed assets. These decreases were partially offset by an increase of $1.5 million in real estate owned and an increase of $254,000 in accruing 90 days past due loans. The decrease in non-accrual loans consisted of a decrease of $2.3 million in non-accrual commercial real estate loans and a decrease of $25,000 in non-accrual commercial business loans, which were partially offset by an increase $105,000 in non-accrual residential mortgages. While non-performing assets have been reduced since June 30, 2010, they remain high as a result of two factors.  First is the negative economic environment that has existed over the last two to three years, which has had an adverse impact on individuals and businesses in the Company's primary market areas. Substantially all of the Company's problem loans are located in the Company's primary lending areas. Second, are concerns regarding the Bank's underwriting of some of the loans that were originated prior to May, 2008. Starting in November 2008, the Company undertook an extensive review of the loan portfolio through which significant strides were made in identifying, analyzing and providing reserves on problem loans. The reviews of the loans in portfolio are an ongoing process. Since May 2008 the Bank has required that all loan originations, renewals and modifications to be approved by the Directors' Loan Committee. As discussed below, management believes the allowance for loan losses as of March 31, 2011, was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date.

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated.

| | March 31, 2011 | June 30, 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | | |
| Loans accounted for on a non-accrual basis: | | | | | | |
| Real estate: | | | | | | |
| Residential | $363 | $258 | $593 | $94 | $245 | $322 |
| Commercial and land | 1,304 | 3,587 | 1,714 | 1,882 | 2,171 | 306 |
| Commercial business | 57 | 82 | 717 | 316 | 467 | 65 |
| Consumer | - | - | - | 21 | 6 | 148 |
| Total | $1,724 | $3,927 | $3,024 | $2,313 | $2,889 | $841 |
| Accruing loans which are contractually past due 90 days or more: | | | | | | |
| Real estate: | | | | | | |
| Residential | $254 | $- | $- | $296 | $278 | $- |
| Commercial and land | - | - | 122 | 64 | 81 | - |
| Commercial business | - | - | 166 | - | - | - |
| Consumer | - | - | - | - | - | 3 |
| Total | $254 | $- | $288 | $360 | $359 | $3 |
| Total of non-accrual and 90 days past due loans | $1,979 | $3,927 | $3,312 | $2,673 | $3,248 | $844 |
| Real estate owned | 5,430 | 3,885 | 1,549 | 1,206 | 291 | 497 |
| Repossessed assets | - | 61 | 158 | - | 2 | - |
| Other non-performing assets: | | | | | | |
| Impaired loans not past due | 3,621 | 5,228 | 7,013 | - | - | - |
| Slow home loans (60 to 90 days past due) | - | - | - | - | - | - |
| Total non-performing assets | $11,030 | $13,101 | $12,032 | $3,879 | $3,541 | $1,341 |
| Total loans delinquent 90 days or more to net loans | 0.25 % | 0.00 % | 0.22 % | 0.22 % | 0.23 % | 0.59 % |
| Total loans delinquent 90 days or more to total consolidated assets | 0.12 % | 0.00 % | 0.13 % | 0.14 % | 0.15 % | 0.37 % |
| Total non-performing assets to total consolidated assets | 5.40 % | 6.19 % | 5.23 % | 1.56 % | 1.47 % | 0.59 % |

Real estate owned and other repossessed assets include real estate and other assets acquired in the settlement of loans, which is recorded at the estimated fair value less the estimated costs to sell the asset. Any write down at the time of foreclosure is charged against the allowance for loan losses. Subsequently, net expenses related to holding the property and declines in the market value are charged against income. At June 30, 2010, real estate owned consisted of eighteen properties (ten single family residences, seven commercial properties and one parcel of farmland) with a net book value of $3.9 million. At June 30, 2010, repossessed collateral consisted of 1,168 radiators, 23 sections of steel shelving, a pallet jack and a moveable staircase and a motorcycle. All repossessed assets on the books at June 30, 2010 were sold during the nine months ended March 31, 2011, resulting in a net loss of $38,000. At March 31, 2011, real estate owned consisted of twenty-eight properties (eighteen single family residences, six commercial properties and four parcels of land) with a net book value of $5.4 million. At March 31, 2011, there was no repossessed collateral on the Company’s books. During the nine months ended March 31, 2011 seven properties and a mobile home located on piece of real estate owned, were sold resulting in a net loss of $25,000. Seventeen properties totaling $2.7 million were foreclosed and added to real estate owned during the nine months ended March 31, 2011, and write-downs totaling $702,000 were provided on eleven properties.

Classified assets. Federal regulations provide for the classification of loans and other assets as "substandard", "doubtful" or "loss", based on the level of weakness determined to be inherent in the collection of the principal and interest. When loans are classified as either substandard or doubtful, the Company may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem loans. When assets are classified as loss, the Company is required to charge-off the amount determined to be loss. The Company's determination as to the classification of its loans and the amount of its allowances for loan losses are subject to review by its regulatory authorities, which may require the establishment of additional general or specific allowances for loan losses.

On the basis of management's review of its loans and other assets, at March 31, 2011, the Company had classified $10.0 million of its assets as substandard, none as doubtful and none as loss. This compares to classifications at June 30, 2010 of $7.7 million as substandard, none as doubtful and none as loss.

Classified assets at March 31, 2011 and June 30, 2010 included in real estate owned were $5.4 million and $3.9 million, respectively. Other repossessed assets were $61,000 at June 30, 2010. There were no other repossessed assets on the Company’s books at March 31, 2011.

In addition to the classified loans, the Bank has identified an additional $951,000 of credits at March 31, 2011 as specially mentioned compared to $1.5 million at June 30, 2010. The review and analysis of these loans identified them as credits possessing some element or elements of increased risk. Any deterioration in their financial condition could increase the classified loan totals. The increase in the internal watch list is primarily the result of the current state of the economy which had a negative impact on cash flows for both individuals and businesses. This, along with stricter internal policies, which have been in place during the last two years, relating to the identification and monitoring of problem loans, has resulted in an increase in the number and the total dollar amount of loans identified as problem loans.

Allowance for loan losses. The Company establishes its provision for loan losses, and evaluates the adequacy of its allowance for loan losses based upon a systematic methodology consisting of a number of factors including, among others, historic loss experience, the overall level of classified assets and non-performing loans, the composition of its loan portfolio and the general economic environment within which the Bank and its borrowers operate.

At March 31, 2011, the Company had established an allowance for loan losses of $2.6 million, compared to an allowance for loan losses of $2.5 million at June 30, 2010. The change in the allowance for loan losses was an increase of approximately $67,000. The provision for loan losses during the nine months ended March 31, 2011 was $716,000, which was substantially offset by charge-offs totaling $649,000 during the same period. The allowance represents approximately 46.3% and 27.6% of the total non-performing loans (including impaired loans not past due) at March 31, 2011 and June 30, 2010, respectively. The allowance for loan losses reflects management’s best estimate of probable losses inherent in the portfolio based on currently available information. The Company believes that the allowance for loan losses as of March 31, 2011 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While the Company believes the estimates and assumptions used in the determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact the Company’s financial condition and results of operations. Future additions to the allowance may become necessary based upon changing economic conditions, increased loan balances or changes in the underlying collateral of the loan portfolio. In addition, the determination of the amount of the Bank’s allowance for loan losses is subject to review by bank regulators as part of the examination process, which may result in the

establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Critical Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be the policy related to the allowance for loan losses.

Allowance for Loan Losses

The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements. Qualitative factors include the general economic environment in the Company's markets, including economic conditions throughout the Midwest and, in particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies, and pace of portfolio growth are other qualitative factors that are considered in the methodology. As the Company adds new products and increases the complexity of its loan portfolio it will enhance its methodology accordingly. Management may have reported a materially different amount for the provision for loan losses in the statement of operations to change the allowance for loan losses if its assessment of the above factors were different. This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "Non-performing Assets and Allowance for Loan Losses." Although management believes the levels of the allowance as of March 31, 2011 and June 30, 2010 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in additional losses.

Valuation of REO and Foreclosed Assets

Real estate properties acquired through foreclosure or by deed-in-lieu of foreclosure ("REO") are recorded at the lower of cost or fair value less estimated costs to sell. Fair value is generally determined by management based on a number of factors, including third-party appraisals of fair value in an orderly sale. Accordingly, the valuation of REO is subject to significant external and internal judgment. Any differences between management's assessment of fair value, less estimated costs to sell, and the carrying value of the loan at the date a particular property is transferred into REO are charged to the allowance for loan losses. Management periodically reviews REO values to determine whether the property continues to be carried at the lower of its recorded book value or fair value, net of estimated costs to sell. Any further decreases in the value of REO are considered valuation adjustments and trigger a corresponding charge to non-interest expense in the Consolidated Statements of Operations. Expenses from the maintenance and operations of REO are included in other non-interest expense.

Deferred Income Taxes

Deferred taxes are determined using the liability (or balance sheet) method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary

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differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Due to the cumulative operating losses over the last five years, which resulted in $3.1 million of loss carry-forwards, the Company was required to provide a reserve of approximately $1.1 million against its net deferred tax assets during the fiscal year ended June 30, 2010. During the nine months ended March 31, 2011, the Company was required to record an additional $581,000 to provide a full valuation allowance on the net deferred tax assets.

Results of Operations for the Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

General. For the three months ended March 31, 2011, the Company reported a net loss of $614,000, or $(0.40) per diluted share, compared to a net loss of $109,000, or $(0.07) per diluted share, for the same period in 2010. The increase in the net loss for the 2011 period was primarily attributable to an increase in the provision for loan losses of $182,000 to $245,000 during the 2011 period from $63,000 during the 2010 period. In addition, net interest income for the three months ended March 31, 2011 decreased by $67,000 to $1.5 million from $1.6 million during the same period in 2010 and the provision for income taxes increased by $345,000 to an expense of $293,000 from a benefit of $52,000 during the 2010 period. These items were partially offset by an increase of $30,000 in non-interest income and a decrease of $59,000 in non-interest expense.

Net interest income. The Company’s net interest income for the three months ended March 31, 2011 was $1.5 million, a decrease of $67,000, or 4.2%, compared to the three months ended March 31, 2010.

Interest income. Interest income for the three months ended March 31, 2011 decreased $355,000, or 15.1%, to $2.0 million compared to $2.4 million for the same period in 2010. Interest income from loans decreased $377,000 to $1.4 million from $1.8 million in 2010 as a result of a decrease in average loans to $100.0 million during the three months ended March 31, 2011 from $116.4 million during the comparable 2010 period and to a decrease in the yield on loans to 5.76% during the three months ended March 31, 2011 from 6.31% during the comparable period in 2010. The decrease in average loans was the result of a decrease in loan volume during and between these three month periods. Additionally, between June 30, 2010 and March 31, 2011 the Bank had loan write-offs totaling $653,000, transfers of loans totaling $2.7 million to real estate owned and repossessed collateral, and efforts by management to move certain credits out of the Bank. The decrease in yield was the result of a downward trend in interest rates over the three years ending March 31, 2011, which resulted in decreased yields on adjustable rate loans and new loans with lower yields replacing some of the higher rate loans that paid off, were written off or transferred to real estate owned or repossessed collateral.

Interest income from investment securities and other interest-earning assets for the three months ended March 31, 2011 increased $21,000, or 3.9%, to $576,000 from $555,000 for the same period in 2010. The increase was the result of an increase in the average balance of these assets of $10.5 million to $88.3 million for the three months ended March 31, 2011 from $77.8 million for the 2010 period, which was partially offset by decrease in the yield on these assets to 2.65% for the three months ended March 31, 2011 from 2.72% for the 2010 period.

Interest expense. Interest expense for the three months ended March 31, 2011 decreased $288,000 or 37.3%, to $485,000 from $773,000 for the same period in 2010. Interest expense on deposits decreased $291,000 to $427,000 in the three months ended March 31, 2011 from $718,000 in the same period in 2010. The decrease resulted from a decrease in the average cost of deposits to

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1.06% during the three months ended March 31, 2011 from 1.71% in the 2010 period, and by a decrease in average interest-bearing deposit balances of $5.6 million to $163.2 million during the three months ended March 31, 2011 from $168.8 million in the 2010 period. Interest expense on other interest-bearing liabilities increased $3,000 to $58,000 in the three months ended March 31, 2011 from $55,000 in the comparable period in 2010. The increase in interest expense on other interest-bearing liabilities was attributable to an increase in the average balance of other interest-bearing liabilities of $1.0 million to $9.1 million during the three months ended March 31, 2011 from $8.1 million during the 2010 period, which was partially offset by a decrease in the average cost of other interest bearing liabilities to 2.62% during the three months ended March 31, 2011 from 2.74% during the 2010 period. The average outstanding balance of retail repurchase agreements increased to $6.1 million during the three months ended March 31, 2011 from $5.1 million during the comparable period in 2010. This was due to our largest retail repurchase agreement customer having more investable cash during the 2011 period than during 2010 period

Net interest margin. The Company's net interest margin was 3.25% for the three months ended March 31, 2011 compared to 3.26% for the three months ended March 31, 2010.

Provision for loan loss. During the quarter ended March 31, 2011, the provision for loan losses totaled $245,000 compared to $63,000 for the quarter ended March 31, 2010. For a discussion of this change, see "Non-performing Assets and Allowance for Loan Losses" herein.

Non-interest income. For the three months ended March 31, 2011, non-interest income totaled $366,000, compared to $337,000 for the three months ended March 31, 2010. The $29,000 increase between the two periods resulted primarily from a $300,000 profit on the sale of investments and a $17,000 profit on the sale of loans during the 2011 period. There were no sales of investments or profits on the sale of loans during the 2010 period. Additionally, net losses on the sale of real estate owned and repossessed assets decreased by $9,000 and $21,000, respectively. Service charges and other fee income decreased by $84,000, other non-interest income decreased by $37,000 and the provision for losses on real estate owned increased by $195,000 between periods. The decrease in service charges and other fee income appears to be occurring throughout the financial services industry with account holders taking greater care that they do not incur overdraft charges for their accounts.

Non-interest expense. Non-interest expense decreased by $59,000 from slightly more than $2.0 million during the three months ended March 31, 2010 to slightly less than $2.0 million for the three months ended March 31, 2011. This was primarily the result of decreases in compensation and employee benefits, deposit insurance premiums and other non-interest expense of $50,000, $44,000 and $112,000, respectively. These decreases were partially offset by increases of $11,000 in occupancy and equipment expense and $136,000 in professional fees.

Income tax expense. State income tax expense and income tax benefits are recorded based on the taxable income or loss of each of the Company. Federal income taxes are calculated based on the combined income of the consolidated group. Pre-tax net income is reduced by non-taxable income items and increased by non-deductible expense items. However, during the year ended June 30, 2010, the Company recorded income tax expense of $1.0 million. This was the result of the reversal of current year and previously recorded net deferred tax benefits. In light of the cumulative net losses the Company has experienced over the last five fiscal years, current accounting standards required that the net deferred tax asset be reserved. Future earnings are expected to enable the Company to recover these reserved deferred tax assets.

The Company recorded a tax expense of $293,000 for the three months ended March 31, 2011 as compared to a tax benefit of $52,000 for the three months ended March 31, 2010. During the quarter ended March 31, 2011, the remaining deferred tax asset related to comprehensive income resulting from the positive difference between the market value and the book value of available-for-sale securities was written off. This deferred tax asset had been decreasing during the nine months ended

March 31, 2011 and had resulted in tax expense because the deferred tax asset had been offset by deferred tax liabilities in determining the tax provision as of June 30, 2010. Going forward, changes in the market value of available-for-sale securities will not impact the income tax provision or benefit of the Company.

Results of Operations for the Nine Months ended March 31, 2011 Compared to the Nine Months ended March 31, 2010

General. For the nine months ended March 31, 2011, the Company reported a net loss of $2.2 million, or $(1.39) per diluted share, compared to net income of $137,000, or $0.09 per diluted share, for the same period in 2010. The change to a net loss during the first nine months of 2011 from net income for the comparable 2010 period was the result of several factors. During the nine months ended March 31, 2011 a provision for loan losses of $716,000 was recorded while the provision during the 2010 period was $63,000. In addition, net interest income decreased by $336,000 to $4.6 million for the 2011 period from $4.9 million for the 2010 period. In addition, non-interest expense for the nine months ended March 31, 2011 increased by $106,000 to $5.9 million from $5.7 million during the same period in 2010. There was also a decrease in non-interest income and an increase in the provision for income taxes, of $813,000 and $382,000, respectively.

Interest income. Interest income for the nine months ended March 31, 2011 decreased $1.2 million, or 16.2%, to $6.3 million compared to $7.5 million for the same period in 2010. Interest income from loans decreased $1.3 million, or 22.1%, to $4.6 million from $5.8 million in 2010. This was attributable to a decrease in the yield on loans to 5.88% during the 2011 period from 6.32% during the comparable 2010 period, and to a decrease in the average loan balances to $103.1 million during the nine months ended March 31, 2011 from $123.4 million during the 2010 period.

Interest income from investment securities and other interest-earning assets for the nine months ended March 31, 2011 increased $78,000 to $1.7 million from $1.6 million for the same period in 2010. The increase was the result of, an increase in the average balance of these assets of $13.2 million to $89.2 million for the nine months ended March 31, 2011 from $76.0 million for the same period in 2010, which was partially offset by a decrease in the yield on these assets to 2.61% for the 2011 period from 2.87% for the 2010 period

Interest expense. Interest expense for the nine months ended March 31, 2011 decreased $880,000, or 34.3%, to $1.7 million from $2.6 million for the same period in 2010. Interest expense on deposits decreased $858,000, or 36.2%, to $1.5 million in the nine months ended March 31, 2011 from $2.4 million in the same period in 2010. The decrease resulted from a decrease in average interest-bearing deposit balances of $5.6 million to $165.2 million during the nine months ended March 31, 2011 from $170.8 million during the 2010 period, and to a decrease in the average cost of deposits to 1.22% during the nine months ended March 31, 2011 from 1.84% in the 2010 period. Interest expense on other interest-bearing liabilities decreased $21,000 to $173,000 in the nine months ended March 31, 2011 from $194,000 in the comparable period in 2010. The decrease in interest expense on other interest-bearing liabilities was due to a decrease in the average outstanding balances of other interest-bearing liabilities to $8.6 million during the nine months ended March 31, 2011 from $12.2 million during the 2010 period, which was partially offset by an increase in the average cost on other interest-bearing liabilities to 2.70% during the 2011 period from 2.32% during the 2010 period.

Net interest margin. Net interest margin decreased to 3.19% for the nine months ended March 31, 2011 from 3.29% for the nine months ended March 31, 2010.

Provision for loan loss. During the nine months ended March 31, 2011, there was a provision for loan losses of $716,000, compared $63,000 for the nine months ended March 31. 2010. For a discussion of this change, see “Non-performing Assets and Allowance for Loan Losses” herein.

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Non-interest income. For the nine months ended March 31, 2011, non-interest income totaled $389,000, compared to $1.2 million for the nine months ended March 31, 2010. The $813,000 decrease between the two periods resulted primarily from an increase of $567,000 in the provision for losses on real estate owned in the 2011 period compared to the 2010 period. There were also decreases of $389,000, $13,000, $54,000, $40,000 and $34,000 in service charges and other fee income, profit on the sale of loans, net loss on sale of property and equipment and real estate owned, net loss on the sale of repossessed assets and other non-interest, respectively. The $54,000 change in net gain on sale of property and equipment and real estate owned was due to a net loss of $25,000 during the nine months ended March 31, 2011 compared to net gain of $29,000 during the nine months ended March 31, 2010. The decrease in gain on the sale of loans resulted from fewer loans originated for sale during the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010.

Non-interest expense. Non-interest expense totaled $5.9 million for the nine months ended March 31, 2011, compared to $5.7 million for the nine months ended March 31, 2010, increasing by $106,000. This was primarily the result of the recording of a liability of $300,000 related to a lawsuit brought by a former employee discussed above. Additionally, there was an increase of $218,000 in professional fees. These increases were partially offset by decreases of $177,000 in compensation and benefits, $34,000 in occupancy and equipment expense and $93,000 in deposit insurance premiums. The decreases in compensation and benefits and occupancy and equipment expense are primarily the result of cost reduction and containment efforts begun by current management. The decrease in deposit insurance premiums was due to some additional expenses recorded during the nine months ended March 31, 2010 period that did not recur in the comparable period in 2010.

Income tax expense. The Company recorded a tax expense of $581,000 for the nine months ended March 31, 2011 as compared to a tax expense of $198,000 for the nine months ended March 31, 2010. During the nine months ended March 31, 2011, the remaining deferred tax asset related to comprehensive income resulting from the positive difference between the market value and the book value of available-for-sale securities was written off. This deferred tax asset had been decreasing during the nine months ended March 31, 2011 and had resulted in tax expense because the deferred tax asset had been offset by deferred tax liabilities in determining the tax provision as of June 30, 2010. Going forward, changes in the market value of available-for-sale securities will not impact the income tax provision or benefit of the Company.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, borrowings, principal and interest payments on loans, investments, and mortgage-backed securities, and funds provided by other operating activities. While scheduled payments on loans, mortgage-backed securities, and short-term investments are relatively predictable sources of funds, deposit flows and early loan repayments are greatly influenced by general interest rates, economic conditions, and competition.

The Company uses its capital resources principally to meet ongoing commitments to fund maturing certificates of deposits and loan commitments, to maintain liquidity, and to meet operating expenses. At March 31, 2011, the Company had commitments to originate loans totaling $1.4 million. The Company believes that loan repayment and other sources of funds will be adequate to meet its foreseeable short- and long-term liquidity needs.

Regulations require First Home Savings Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and a leverage ratio consisting of Tier 1 capital to average assets. The following table sets forth First Home Savings Bank's actual capital and required capital amounts and ratios at March 31, 2011 which, at that date, exceeded the minimum capital adequacy requirements.

| At March 31, 2011 | Actual | | Minimum Requirement For Capital Adequacy Purposes | | Minimum Requirement To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in thousands) | | | |
| Tangible Capital (to adjusted total assets) | $ 18,281 | 9.01 % | $ 3,043 | 1.50 % | - | - - |
| Tier 1 (Core) Capital (to adjusted total assets) | 18,281 | 9.01 % | 8,114 | 4.00 % | $ 10,143 | 5.00 % |
| Tier 1 (Core) Capital (to risk weighted assets) | 18,281 | 18.15 % | 4,029 | 4.00 % | 6,044 | 6.00 % |
| Total Risk Based Capital (to risk weighted assets) | 19,516 | 19.37 % | 8,059 | 8.00 % | 10,073 | 10.00 % |

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories and authorized the banking regulators to take prompt corrective action with respect to institutions in an undercapitalized category. While at March 31, 2011, First Home Savings Bank still exceeded minimum requirements for the well capitalized category, it is not considered well-capitalized as a result of the cease and desist order currently in place.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" that relate to the Company within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "intend," "should," "plan," "project," "estimate," "potential," "seek," "strive," or "try" or other conditional verbs such as "will," "would," "should," "could," or "may" or similar expressions. These forward-looking statements relate to, among other things, expectations of the business environment in which we operate and about the Company and the Bank, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding our strategies. Our ability to predict results or the actual effects of our plans or strategies is inherently uncertain. Although we believe that our plans, intentions and expectations, as reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or realized. Our actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide variety or range of factors including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs that may be impacted by deterioration in the housing and commercial real estate markets and may lead to increased losses and non-performing assets in our loan portfolio, result in our allowance for loan losses not being adequate to cover actual losses, and require us to materially increase our reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; deposit flows; fluctuations in the demand for loans, the number of unsold homes and other properties and fluctuations in real estate values in our market areas; adverse changes in the securities markets; results of examinations of us by the Office of Thrift Supervision, the Missouri Division of Finance and the Federal Deposit Insurance Corporation or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings; the possibility that we will be unable to comply with the conditions imposed upon us by the Orders to Cease and Desist issued by the OTS, including but not limited to our ability to reduce our non-performing assets, which could result in the imposition of additional restrictions on our operations; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; computer systems on which we depend could fail or experience a security breach, or the implementation of new technologies may not be successful; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; legislative or regulatory changes such as the Dodd-Frank Act and its implementing regulations that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; the inability of key third party providers to perform their obligations to us; changes in accounting policies, principles and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations; pricing, products and services; our ability to lease excess space in Company-owned buildings; and other risks detailed in this Quarterly Report and our Annual Report on Form 10-K. Any of the forward looking statements that we make in this Form 10-Q and in the other public statements we make may turn out to be wrong because of the inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Additionally, the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control. We caution readers not to place undue reliance on any forward-looking statements. We do not undertake and specifically disclaim any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for future periods to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's operating and stock performance.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

## Item 4. Controls and Procedures

Any control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that its objectives will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

### Disclosure Controls and Procedures

The Company’s management, with the participation of the Company’s Chief Executive Officer, President and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures, as such term is defined in Rules 13a – 15(e) and 15d – 15(e) of the Securities Exchange Act of 1934 (Exchange Act) as of the end of the period covered by the report.

Based upon that evaluation, the Company’s Chief Executive Officer, President and Chief Financial Officer concluded that as of March 31, 2011 the Company’s disclosure controls and procedures were effective to provide reasonable assurance that (i) the information required to be disclosed by the Company in this Report was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive, president and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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Internal Control Over Financial Reporting

A material weakness is a significant deficiency (within the meaning of PCAOB Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual of interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

As of December 31, 2010, the Company did not identify or record certain transactions related to additional allowances for loan losses and valuation allowances on real estate owned. These transactions were identified after discussion with the Company's independent registered public accounting firm and were corrected prior to the release of the Company's earnings for the three and six month periods ended December 31, 2010.

Because of the material weakness described above, based on its assessment, management believed that, as of December 31, 2010, the Company did not maintain effective internal control over financial reporting based on the criteria established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

To remediate the material weakness in the Company's internal control over financial reporting described above, the Company has re-examined its policies and procedures relating to identifying potential losses on problem loans and real estate acquired through foreclosure. Based on the review, the Company has amended its policies as necessary, and streamlined its procedures to provide a focal point for the flow of related information through the Company. The person responsible for this information flow will provide the Board of Directors with current information on which the adequacy of loss allowances can be determined.

During the quarter ended March 31, 2011, other than the remediation described in the proceeding paragraph, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company’s business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

FIRST BANCSHARES, INC.
AND SUBSIDIARIES
PART II - OTHER INFORMATION

FORM 10-Q

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses. See “Recent Developments and Corporate Overview – Litigation” for discussion regarding a lawsuit by a former employee and the accrual for a possible settlement.

Item 1A. Risk Factors

There are no material changes from risk factors as previously disclosed in our June 30, 2010 Annual Report on Form 10-K.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

(a) Recent sales of unregistered securities - None.

(b) Use of proceeds - None.

(c) Stock repurchases - None

Item 3. Defaults Upon Senior Securities - None

Item 4. Removed and reserved

Item 5. Other Information - None

Item 6. Exhibits

(a) Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

FIRST BANCSHARES, INC.

| | | | |
|---|---|---|---|
| Date: | May 11, 2011 | By: | /s/ Thomas M. Sutherland___<br>Thomas M. Sutherland,<br>Chief Executive Officer |
| Date: | May 11, 2011 | By: | /s/ Ronald J. Walters_<br>Ronald J. Walters, Senior Vice President,<br>Treasurer and Chief Financial Officer |

EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
|---|---|
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