FIRST BANCSHARES INC /MS/
Form DEF 14A
November 28, 2016

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨Preliminary Proxy Statement
¨Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨Definitive Additional Materials
¨Soliciting Material Pursuant to Rule 14a-12

THE FIRST BANCSHARES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

The First Bancshares, Inc.

Notice of Special Meeting of Shareholders

to be held on December 29, 2016

Dear Fellow Shareholder:

We cordially invite you to attend a Special Meeting (the "Special Meeting") of Shareholders of The First Bancshares, Inc. (the "Company"), the holding company for The First, A National Banking Association. We hope that you can attend the meeting and look forward to seeing you there.

This letter serves as your official notice that the Company will hold the Special Meeting on Thursday, December 29, 2016, at 4:30 p.m. at the Company's main office located at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402. At the Special Meeting, you will be asked to consider and vote on the following matters:

1. **Conversion of Convertible Preferred Stock.** To approve, for purposes of NASDAQ Listing Rule 5635, the Company's issuance of 3,563,380 shares of common stock upon the conversion of an equivalent number of Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series E, as contemplated by the Securities Purchase Agreements described in the accompanying proxy statement.
2. **Adjournment of Special Meeting if Necessary or Appropriate**. To approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Special Meeting to adopt Proposal 1.

The Board of Directors unanimously recommends that you vote in favor of Proposals 1 and 2.

Pursuant to the Company's bylaws, the only business permitted to be conducted at the Special Meeting are the matters set forth in this letter and notice of the meeting.

Shareholders owning shares of the Company's common stock at the close of business on November 17, 2016, are the only persons entitled to attend and vote at the meeting. A complete list of these shareholders will be available at The First Bancshares, Inc.'s main office prior to and during the meeting.

IMPORTANT NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON DECEMBER 29, 2016

The Proxy Statement for the special meeting is available at www.edocumentview.com/FBMS

Please use this opportunity to take part in the affairs of your company by voting on the business to come before this meeting. Even if you plan to attend the meeting, the Company encourages you to complete and return the enclosed proxy to us as promptly as possible.

By Order of the Board of Directors,

M. Ray “Hoppy” Cole, Jr.	E. Ricky Gibson
President and CEO	Chairman of the Board

Dated and Mailed on or about November 29, 2016, Hattiesburg, Mississippi

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The First Bancshares, Inc.

6480 U.S. Highway 98 West

Hattiesburg, Mississippi 39402

Proxy Statement for the Special Meeting of

Shareholders to be Held on December 29, 2016

INTRODUCTION

Date, Time, and Place of Meeting

A Special Meeting of Shareholders (the "Special Meeting") of The First Bancshares, Inc. (the "Company"),a Mississippi corporation and the holding company for The First, A National Banking Association (the “Bank”) will be held at the main office of the Company located at 6480 U.S. Highway 98 West, Hattiesburg, Mississippi 39402, on Thursday, December 29, 2016, at 4:30 p.m., local time, or any adjournment(s) thereof, for the purpose of considering and voting upon the matters set out in the foregoing Notice of Special Meeting of Shareholders. This Proxy Statement is furnished to the shareholders of the Company in connection with the solicitation by the Board of Directors of proxies to be voted at the Meeting.

The mailing address of the principal executive office of the Company is Post Office Box 15549, Hattiesburg, Mississippi, 39404-5549.

The approximate date on which this Proxy Statement and form of proxy are first being sent or given to shareholders is November 29, 2016.

The matters to be considered and voted upon at the Special Meeting will be:

1. **Conversion of Convertible Preferred Stock.** To approve, for purposes of NASDAQ Listing Rule 5635, the issuance of 3,563,380 shares of common stock upon the conversion of an equivalent number of Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series E, as contemplated by the Securities Purchase Agreements described below.

2. **Adjournment of Special Meeting if Necessary or Appropriate**. To approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies from shareholders who have not submitted proxies at the time of the initially convened Special Meeting if there are insufficient votes at the time of the Special Meeting to adopt Proposal 1.

Record Date; Quorum; Voting Rights; Vote Required

The record date for determining holders of outstanding common stock of the Company entitled to notice of and to vote at the Special Meeting is November 17, 2016 (the "Record Date"). Only holders of the Company's common stock of record on the books of the Company at the close of business on the Record Date are entitled to notice of and to vote at the Special Meeting or at any adjournment or postponement thereof. As of the Record Date, there were 5,428,017 shares of the Company's common stock issued and outstanding, each of which is entitled to one vote on all matters. In order for the Special Meeting to be duly convened, a quorum must be present, and a quorum requires that the holders of a majority of the shares of common stock be present in person or by proxy at the meeting Approval of Proposals 1 and 2 requires the affirmative vote of a majority of votes cast at a duly convened meeting. Abstentions and broker non-votes are counted only for purposes of determining whether a quorum is present at the Meeting.

In addition, Mississippi law does not provide dissenters’ or appraisal rights to our stockholders in connection with either of the proposals.

Proxies

Shares of common stock represented by properly executed proxies, unless previously revoked, will be voted at the Special Meeting in accordance with the directions therein. If no direction is specified, such shares will be voted in the discretion of the person named as the proxy holder with respect to any other business that may come before the Special Meeting. A proxy may be revoked by a shareholder at any time prior to its exercise by filing with the Secretary of the Company a written revocation or a duly executed proxy bearing a later date. A proxy shall also be revoked if the shareholder is present and elects to vote in person.

PROPOSAL 1

APPROVAL OF THE ISSUANCE OF SHARES OF COMMON STOCK UPON THE CONVERSION OF THE COMPANY'S SERIES E NONVOTING CONVERTIBLE PREFERRED STOCK INTO COMMON STOCK

Background and Reasons for Requesting Shareholder Approval

On October 12, 2016, the Company entered into Securities Purchase Agreements (each a "Security Purchase Agreement") with a limited number of institutional and other accredited investors (the "Purchasers" and each, a "Purchaser") pursuant to which the Company sold in a private placement (the "Private Placement") 3,563,380 shares of newly authorized Series E Nonvoting Convertible Preferred Stock ("Series E Preferred Stock") at a purchase price of $17.75 per share, for aggregate gross proceeds of $63,249,995. The terms of the Series E Preferred Stock provide for their mandatory conversion into an equivalent number of shares of the Company's common stock upon approval of this proposal. The Company paid $3,162,499.75 in fees to its financial advisors who acted as placement agents in the private placement. The Private Placement transaction was completed on October 14, 2016. The material terms of the Series Preferred Stock are discussed below.

Because our common stock is listed on the NASDAQ Global Select Market, we are subject to NASDAQ Listing Rule 5635(d), which requires shareholder approval prior to the issuance of securities in connection with a transaction, other than a public offering, involving the sale, issuance or potential issuance by a company of common stock (or securities convertible into or exercisable for common stock) equal to 20% or more of the then outstanding shares of common stock or 20% or more of the voting power before the issuance of such additional shares at a price that is less than the greater of book or market value of the stock.

Upon conversion of the Series E Preferred Stock, the Company will issue 3,563,380 shares of common stock, which is 65.6% of the Company's 5,428,017 shares of common stock outstanding on October 11. The closing sales price of the Company's common stock on October 11th, the day the Series E Preferred Stock offering was priced, was $18.29 per share on the NASDAQ Global Market.

The proposed conversion of the Series E Preferred Stock for shares of our common stock is subject to this NASDAQ rule because the shares of common stock issuable upon conversion of the Series E Preferred Stock exceed 20% of both the voting power and number of shares of our common stock outstanding before the issuance, and the negotiated price per share of common stock on an as-converted basis was less than the book value and market value of our common stock at the time of issuance.

The Private Placement of the Series E Preferred Stock was exempt from Securities and Exchange Commission ("SEC") registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D promulgated thereunder.

The proceeds from the Private Placement will be used, in part, to fund the acquisition of Iberville Bank, Plaquemine, Louisiana (the "Iberville Bank Acquisition"). The Iberville Bank Acquisition is NOT part of Proposal 1 and the Company's shareholders are NOT being asked to vote on the Iberville Bank Acquisition. Further, the results of the vote of the shareholders at the Special Meeting will not affect whether the Company completes the Iberville Bank Acquisition. Iberville Bank's principal executive office is located at 23405 Eden Street, Plaquemine, LA 70764 and its phone number is (225) 687-2091. Iberville Bank is a community bank that specializes in deposit and lending services throughout southeast Louisiana.

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For a more detailed description of the Iberville Bank Acquisition, please see “Acquisition of Iberville Bank” set forth below. The most material terms of the Iberville Bank Acquisition follow:

Summary of Iberville Bank Acquisition

Parties:	The First Bancshares, Inc. (Buyer) A. Wilbert’s Sons Lumber & Shingle Company (Seller)
Structure:	Acquisition of 100% of the stock of Iberville Bank
Consideration:	$31,100,000 in cash
Representations:	The Seller has made certain representations and warranties to Buyer, including: · Organization, Standing and Authority · Subsidiaries · Compliance with laws · Financial statements and condition · Taxes · Employee benefits · Environmental matters · Title to assets and loans · Community Reinvestment Act · Flood-affected loans
Covenants:	The Seller has agreed to certain actions prior to the closing of the Iberville Bank Acquisition, including: o Operating only in the ordinary course o Limited dividends or distributions o No changes to organizational documents o Limited capital expenditures and compensation increases o Prior approval for loans and investment purchases over certain thresholds o No incurrence of debt except in the ordinary course

o No acquisitions or significant dispositions of assets

Additional Agreements:

The parties have agreed to certain additional terms, including:

· Seller will seek shareholder and regulatory approval

· Seller will not pursue alternative transactions and may only enter into unsolicited alternative transactions in limited circumstances

· Buyer will indemnify directors and officers of Seller to the same extent as Seller currently

· Seller will terminate certain employee benefit plans prior to the closing

· Buyer will appoint one additional board member to the Bank's board of directors

Conditions:

Each of the parties must satisfy certain obligations in order to consummate the Iberville Bank Acquisition, including:

· Conditions to Buyer's Obligations:

o All representations, covenants, and additional agreements must be satisfied

o No material adverse effect shall have happened

o Seller will have delivered a certificate of Iberville Bank's adjusted capital

· Conditions to Seller's Obligations:

o All representations, covenants, and additional agreements must be satisfied

o Buyer will have paid the purchase price to Seller

Termination:

The Iberville Bank Acquisition agreement may be terminated under certain circumstances, including:

o If the acquisition is not completed by March 31, 2017

o If the Seller's board of directors changes its recommendation

o If either party fails to perform any of its obligations that would give rise to a condition not being satisfied and such failure remains uncured

Miscellaneous:

The Buyer and Seller have agreed to escrow approximately $2.5 million of the purchase price while the parties resolve certain loans that were affected by the 2016 flooding in the Baton Rouge, Louisiana area.

Consequences of Approval of Proposal 1

Shareholder approval of Proposal 1 will have the following consequences:

Conversion of Series E Preferred Stock into Common Stock at the Initial Conversion Price. Each share of Series E Preferred Stock will be automatically converted into one share of common stock on the third business day following shareholder approval.

Elimination of Dividend and Liquidation Preference of Holders of Series E Preferred Stock. All shares of Series E Preferred Stock will be cancelled upon conversion, resulting in the elimination of the dividend rights and liquidation preference existing in favor of the Series E Preferred Stock. For more information regarding such dividend rights and liquidation preferences, see “Series E Preferred Stock Terms and Provisions” in this proxy statement.

Elimination of Separate Voting Rights of Holders of Series E Preferred Stock.. Holders of Series E Preferred Stock have approval rights for certain Company actions, and the conversion of Series E Preferred Stock into common stock will eliminate these separate voting rights. For more information regarding such voting, see "Series E Preferred Stock Terms and Provisions" in this proxy statement.

Market Effects. Despite the existence of certain restrictions on transfer relating to securities law, the issuance of shares of our common stock upon conversion of the Series E Preferred Stock may adversely affect the market price of our common stock. If significant quantities of our common stock issued upon conversion of the Series E Preferred Stock are sold (or if it is perceived by the market that they may be sold) after their registration into the public market, the trading price of our common stock could be materially adversely affected.

Dilution. We will issue, through the conversion of the Series E Preferred Stock, approximately 3,563,380 shares of common stock (in addition to the 5,428,017 shares of common stock currently outstanding). As a result, we expect there to be a dilutive effect on the earnings per share of our common stock. In addition, our existing shareholders will incur substantial dilution to their voting interests and will own a smaller percentage of our outstanding common stock.

Consequences of Failure to Approve Proposal 1

Series E Preferred Stock Will Remain Outstanding. Unless the shareholder approval is received or unless our shareholders approve a similar proposal at a subsequent meeting, the Series E Preferred Stock will remain outstanding in accordance with its terms, and incur the potential following effects.

Continued Dividend Payment and Potential Market Effects. We would expect that the shares of Series E Preferred Stock will remain outstanding for the foreseeable future and, beginning six months from the issuance of the Series E Preferred Stock, or approximately April 14, 2017, and for so long as such shares remain outstanding, we would be required to pay dividends on the Series E Preferred Stock, on a non-cumulative basis, at an annual rate of 6% of the liquidation value of the Series E Preferred Stock, which is $17.75.

Continued Separate Voting Rights of Holders of Series E Preferred Stock. Holders of Series E Preferred Stock have certain separate voting rights, and the holders of our common stock will be unable to take certain actions without approval by the holders of the Series E Preferred Stock. For more information regarding such voting, see "Series E Preferred Stock Terms and Provisions" in this proxy statement.

Additional Shareholder Meetings. Pursuant to the Securities Purchase Agreement, we would be required to call additional shareholder meetings every three months and recommend approval of Proposal 1 at each meeting to the shareholders, if necessary, until such approval is obtained. We will bear the costs of soliciting the approval of our shareholders in connection with these meetings.

Restriction on Payment of Dividends. If shareholder approval is not obtained, the shares of Series E Preferred Stock will remain outstanding and, beginning six months from the issuance of the Series E Preferred Stock, or approximately April 12, 2017, and for so long as such shares remain outstanding, if dividends payable on all outstanding shares of the Series E Preferred Stock have not been declared and paid, or declared and funds set aside therefor, we will not be permitted to declare or pay dividends with respect to, or redeem, purchase, or acquire any of our junior securities, or redeem, purchase or acquire any parity securities, subject to limited exceptions.

Participation in Dividends on Common Stock. So long as any shares of Series E Preferred Stock are outstanding, if we declare any dividends on our common stock or make any other distribution to our common shareholders, the holders of the Series E Preferred Stock will be entitled to participate in such distribution on an as-converted basis.

Liquidation Preference. For as long as the Series E Preferred Stock remains outstanding, it will retain a senior liquidation preference over shares of our common stock in connection with any liquidation of us and, accordingly, no payments will be made to holders of our common stock upon any liquidation of us unless the full liquidation preference on the Series E Preferred Stock is paid.

Pro Forma Financial Information

To assist in your understanding of the impact of the Private Placement relating to Proposal No. 1, we are providing the following pro forma financial information. The following table sets forth our capitalization and regulatory capital ratios on a consolidated basis as of September 30, 2016 on:

(1) an actual basis; and

(2) an adjusted basis to give effect to the issuance of 3,563,380 shares of the Series E Preferred Stock in the offering on a (i) non-converted basis and (ii) converted basis.

The table should be read in conjunction with and is qualified in its entirety by our audited and unaudited financial statements and notes thereto incorporated by reference into this proxy. For more information, see "Incorporation by Reference of Information About the Company, Financial Statements and Related Information" below.

	As of September 30, 2016 (in thousands)		
		As Adjusted for the Offering	
	Actual	If the Preferred Stock IS NOT converted to Common Stock	If the Preferred Stock IS converted to Common Stock
Stockholders' Equity:			
Common Stock - $1.00 par value per share; 20,000,000 shares authorized, 5,454,511 shares issued (including treasury shares held by our Company); 9,017,891 shares issued and outstanding as adjusted for this offering.	$ 5,455	$ 5,455	$ 9,018
Preferred stock, no par value, $1,000 per share liquidation, 10,000,000 shares authorized; 17,123 issued and outstanding	17,123	17,123	17,123
Preferred stock, $1.00 par value, $17.75 per share liquidation, 3,563,380 shares authorized; 3,563,380 issued and outstanding and	-	63,250	-

related surplus			
Capital surplus	44,996	44,996	104,683
Retained earnings	42,543	42,543	42,543
Accumulated other comprehensive income, net	3,005	3,005	3,005
Treasury stock, at cost, 26,494 shares	(464)	(464)	(464)
Total stockholders' equity	$ 112,658	$ 175,908	$ 175,908
Consolidated Capital Ratios:			
Tangible common equity to tangible assets	6.39 %	6.08 %	10.89 %
Tangible equity to tangible assets	7.8 %	12.2 %	12.2 %
Tier 1 leverage	8.5 %	13.1 %	13.1 %
Tier 1 risk based capital ratio	10.5 %	16.2 %	16.2 %
Total risk based capital ratio	11.2 %	16.9 %	16.9 %
Common equity Tier 1 capital ratio	7.8 %	7.8 %	13.6 %

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Series E Preferred Stock Terms and Provisions

The following is a summary of the material terms and provisions of the preferences, limitations, voting powers and relative rights of the Series E Preferred Stock as contained in the Certificate of Designation for the Series E Preferred Stock which has been filed with the Secretary of State of the State of Mississippi. Shareholders are urged to carefully read the Certificate of Designation in its entirety. Although we believe this summary covers the material terms and provisions of the Series E Preferred Stock as contained in the Certificate of Designation, it may not contain all of the information that is important to you.

Authorized Shares, Par Value and Liquidation Preference. We have designated 3,563,380 shares as "Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series E," each of which has a $1.00 par value and a liquidation preference of $17.75 per share.

Mandatory Conversion. The Series E Preferred Stock of each holder will convert into shares of common stock on the third business day following the approval by the holders of our common stock of the conversion of the Series E Preferred Stock into common stock as required by the applicable NASDAQ rules. Assuming shareholder approval of Proposal 1 at the Special Meeting, the number of shares of common stock into which each share of Series E Preferred Stock shall be converted will be determined on a one-to-one basis.

Dividends. If shareholder approval is not obtained, the shares of Series E Preferred Stock will remain outstanding and, beginning six months from the issuance of the Series E Preferred Stock, or approximately April 12, 2017, and for so long as such shares remain outstanding, we will be required to pay dividends on the Series E Preferred Stock, on a non-cumulative basis, at an annual rate of 6% of the liquidation value of the Series E Preferred Stock, which is $17.75. Dividends after the six month anniversary of issuance will be payable semi-annually in arrears on June 30 and December 31, beginning on June 30, 2017. If all dividends payable on the Series E Preferred Stock have not been declared and paid for an applicable dividend period, the Company shall not declare or pay any dividends on any stock which ranks junior to the Series E Preferred Stock, or redeem, purchase or acquire any stock which ranks *pari passu* or junior to the Series E Preferred Stock, subject to customary exceptions. If all dividends payable on the Series E Preferred Stock have not been paid in full, any dividend declared on stock which ranks *pari passu* to the Series E Preferred Stock shall be declared and paid pro rata with respect to the Series E Preferred Stock and such *pari passu* stock.

Participation in Dividends on Common Stock. So long as any shares of Series E Preferred Stock are outstanding, if we declare any dividends on our common stock or make any other distribution to our common shareholders, the holders of the Series E Preferred Stock will be entitled to participate in such distribution on an as-converted basis.

Ranking. The Series E Preferred Stock will rank senior to all of the Company's common stock and *pari passu* to the Company's outstanding Series CD Preferred Stock and will rank *pari passu* or senior to all future issuances of the Company's preferred stock and junior to the Company's outstanding Trust Preferred Securities.

Voting Rights. The holders of the Series E Preferred Stock will not have any voting rights other than as required by law, except that the approval of the holders of a majority of the Series E Preferred Stock, voting as a single class, will be required with respect to certain matters, including (A) charter amendments adversely affecting the rights, preferences or privileges of the Series E Preferred Stock, (B) the consummation of a reorganization event in connection with which the Series E Preferred Stock is not converted or otherwise treated as provided in the Certificate of Designation, or (C) the creation of any series of equal or senior equity securities.

Liquidation. In the event the Company voluntarily or involuntarily liquidates, dissolves or winds up, the holders of the Series E Preferred Stock shall be entitled to liquidating distributions equal to $17.75 per share plus any declared and unpaid dividends.

Redemption. The Series E Preferred Stock shall be perpetual unless converted in accordance with the Certificate of Designation. The Series E Preferred Stock will not be redeemable at the option of the Company or any holder of Series E Preferred Stock at any time.

Preemptive Rights. Holders of the Series E Preferred Stock have no preemptive rights.

Fundamental Change. If the Company enters into a transaction constituting a consolidation or merger of the Company or similar transaction or any sale or other transfer of all or substantially all of the consolidated assets of the Company and its subsidiaries, taken as a whole (in each case pursuant to which its common stock will be converted into cash, securities or other property) or for certain reclassifications or exchanges of its common stock, then each share of Series E Preferred Stock will convert, effective on the day on which such share would automatically convert into common stock of the Company, into the securities, cash and other property receivable in the transaction by the holder of the number of shares of common stock into which such share of Series E Preferred Stock would then be convertible, assuming receipt of any applicable regulatory approval.

The Securities Purchase Agreements

The following is a summary of the material terms of the Securities Purchase Agreements.

Purchase and Sale of Stock. Pursuant to the Securities Purchase Agreements, we issued and sold 3,563,380 shares of the Series E Preferred Stock, in the aggregate, to the Purchasers (defined therein).

Representations and Warranties. We made customary representations and warranties to the Purchasers relating to us, our business and our capital stock, including with respect to the shares of Series E Preferred Stock issued to the Purchasers pursuant to the Securities Purchase Agreements. The representations and warranties in the Securities Purchase Agreements were made for purposes of the Securities Purchase Agreements and are subject to qualifications and limitations agreed to by the respective parties in connection with negotiating the terms of the Securities Purchase Agreements, including being qualified by confidential disclosures made for the purposes of allocating contractual risk. In addition, certain representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from what might be viewed as material to shareholders, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as facts. The representations and warranties and other provisions of the Securities Purchase Agreements should not be read alone, but instead should only be read together with the information provided elsewhere in this document and in the documents incorporated by reference into this document, including the periodic and current reports and statements that we file with the SEC.

Agreement to Seek Shareholder Approval. We agreed to call the Special Meeting, as promptly as reasonably practicable but in no event later than December 31, 2016, and to recommend and seek shareholder approval of Proposal 1. In addition, we agreed to prepare and file this proxy statement with the SEC and to cause the proxy statement to be mailed to shareholders within specified timeframes. If such approval is not obtained at the Special Meeting, we have agreed to call additional meetings and recommend approval of Proposal 1 to the shareholders every three (3) months thereafter until such approval is obtained.

Transfer Restrictions. The Series E Preferred Stock issued in the Private Placement constitutes “restricted securities” under federal securities laws and is accordingly subject to significant restrictions on transfer. The Company committed, pursuant to the Registration Rights Agreement into which it also entered with each Purchaser, to register both the Series E Preferred Stock and the Common Stock to be issued upon conversion of the Series E Preferred Stock, for resale under the Securities Act. See “The Registration Rights Agreement.”

Other Covenants. We also agreed to a number of customary covenants, including covenants with respect to the reservation and listing on NASDAQ of the common stock to be issued upon conversion of the Series E Preferred Stock.

Indemnity. We have agreed to customary indemnification provisions for the benefit of each Purchaser relating to certain losses suffered by each Purchaser arising from breaches of our representations, warranties and covenants in the Securities Purchase Agreements or relating to certain losses arising from actions, suits or claims relating to the Securities Purchase Agreements or the transactions contemplated thereby.

Expenses. The Purchasers and the Company will be solely responsible for and bear all of their own expenses, including, without limitation, expenses of legal counsel, accountants and other advisors (including financial intermediaries and advisors), incurred at any time in connection with the transactions contemplated by the Securities Purchase Agreements.

The Registration Rights Agreement

On October 12, 2016, we also entered into a Registration Rights Agreement with the Purchasers pursuant to which we agreed to (i) file a registration statement with the SEC within 90 days of October 14, 2016, to register the Common Stock to be issued upon conversion of the Series E Preferred Stock, for resale under the Securities Act; (ii) use commercially reasonable efforts to cause such registration statement to be declared effective within 120 days of October 14, 2016 (or 150 days in the event of an SEC review), subject to specified exceptions; and (iii) continue to take certain steps to maintain effectiveness of the registration statement and facilitate certain other matters.

Failure to meet these deadlines and certain other events may result in the Company's payment to the Purchasers of liquidated damages in the monthly amount of 0.5% of the purchase price. The Company will bear all expenses incident to performing its obligations under the Registration Rights Agreement regardless of whether any securities are sold pursuant to a relevant registration statement, including registration and filing fees, printing expenses, legal fees, and other incidental expenses. The Company is not responsible for any underwriting discounts, broker or similar fees or commissions, or legal fees, of any Purchaser. The Registration Rights Agreement also provides for customary reciprocal indemnification provisions relating to certain losses suffered by either party arising from any untrue or alleged untrue statement of a material fact, or material omission, in any relevant registration statement or prospectus.

Acquisition of Iberville Bank

Background of the Iberville Bank Acquisition

In early June 2016, M. Ray (Hoppy) Cole, Jr., Vice Chairman, President and CEO of FBMS, and other FBMS representatives, including their financial adviser, received information with regard to a potential transaction with Iberville Bank from Iberville Bank's parent company, A. Wilbert's Sons Lumber and Shingle Company ("AWS"). FBMS management, legal advisors and financial analysts reviewed preliminary due diligence information provided by AWS and its legal and financial advisors.

FBMS subsequently submitted a preliminary LOI on June 28, 2016 which reflected a range of prices FBMS may be willing to pay based on the due diligence received to date. The offer was subject to satisfactory completion of FBMS's due diligence and proposed an exclusivity period of 90 days, among other conditions. FBMS also inquired whether consideration in the form of stock for all of the common shares of Iberville Bank would be acceptable. AWS and Iberville Bank consulted with its legal adviser and financial adviser regarding the financial and legal terms of the LOI. AWS informed FBMS that they would only be willing to accept cash as consideration.

Over the next month, FBMS conducted its due diligence review of Iberville Bank. Iberville Bank also conducted a limited due diligence review of FBMS including an on-site visit by Iberville Bank management and its board of directors. Concurrent with the respective due diligence reviews, Iberville Bank and FBMS began negotiations of a definitive acquisition agreement. On July 27, 2016, AWS sent a draft of a stock purchase agreement (the "Agreement") to FBMS's legal counsel.

During the next month, FBMS's management met with representatives of Iberville Bank both on-site and over the telephone and FBMS's legal counsel and the FBMS financial adviser met with the Iberville Bank management team and legal and financial advisors (via telephone) to update the due diligence process and the status of negotiations related to the Agreement. Subsequently, FBMS asked for an extension of the LOI noting that the exclusivity period was set to expire soon. FBMS requested an extension to the LOI with a target announcement date of September 9, 2016. On August 10, 2016 and again on August 18, 2016, FBMS submitted a revised LOI requesting an extension of the exclusivity period and refining the terms of FBMS's proposal. All other terms of the original LOI remained as agreed to in the original LOI executed on June 28, 2016. Iberville Bank's board accepted the terms of the revised LOI on August 26, 2016.

Over the next six weeks, FBMS, AWS, Iberville Bank and their advisers negotiated the terms of the Agreement and reviewed the related disclosure schedules. During this time period, both parties' directors and management had various discussions, including with their counsel and financial advisors, regarding the status of the negotiations, Agreement issues, employee issues, and related matters. During the first week of September, following extensive flooding in the Baton Rouge, Louisiana area, FBMS indicated to Iberville Bank and its representatives that extensive, additional due diligence would be required in regards to potential loans that may have been affected by the flooding. Over the next several weeks, FBMS conducted flood-related due diligence.

The FBMS board met on October 7, 2016 and reviewed and discussed the terms of the proposed Agreement and approved the terms of the Agreement with AWS and Iberville Bank. At a special meeting on October 11, 2016, the AWS board met, along with its financial representative and AWS and Iberville Bank counsel, to review the terms of the proposed Agreement and related agreements. AWS and Iberville Bank's legal counsel then reviewed the most recent draft of the proposed Agreement and related transaction documents.

On October 12, 2016, the Agreement was formally signed by FBMS and AWS. A joint press release was issued, announcing the execution of the Agreement and the terms of the Acquisition on October 14, 2016. The press release also included the announcement of an agreement by FBMS to acquire Gulf Coast Community Bank in an approximately $2.3 million all stock transaction and the private placement of approximately $63.3 million in FBMS capital stock.

Terms of the Iberville Bank Acquisition Agreement

On October 12, 2016, the Company and the Bank entered into a Stock Purchase Agreement (the "Iberville Bank Acquisition Agreement") with A. Wilbert's Sons Lumber and Shingle Company (the "Iberville Bank Parent"), the parent company of Iberville Bank ("Iberville Bank"), under which the Company has agreed to acquire 100% of the common stock of Iberville Bank for a purchase price of $31.1 million in cash (the "Iberville Bank Acquisition").

The Company will pay the Iberville Bank Parent $31.1 million in cash ("purchase price") for 100% of the stock of Iberville Bank; provided however, that $2.5 million of the purchase price will be subject to a mutually acceptable escrow agreement pursuant to which the parties have agreed to escrow such amount to cover potential losses on loans that were affected by recent flooding in certain of the Iberville Bank markets.

The Iberville Bank Acquisition Agreement contains customary representations and warranties by both the Company and the Iberville Bank Parent and each have agreed to customary covenants, including, among others, covenants relating to (1) the conduct of Iberville Bank's businesses during the interim period between the execution of the

Agreement and the completion of the Iberville Bank Acquisition; and (2) cooperation with respect to the filing of regulatory approval applications regarding the Iberville Bank Acquisition.

Completion of the Iberville Bank Acquisition is subject to certain customary conditions, including, among others (1) approval by two-thirds (2/3) of the Iberville Bank Parent shareholders, (2) the accuracy of the representations and warranties of the other party, and (3) performance in all material respects by the other party of its obligations under the Agreement. The Company's shareholders will not vote on the transaction.

The Agreement contains certain termination rights for the Company and Iberville Bank Parent, as the case may be, applicable upon (1) March 31, 2017, if the Iberville Bank Acquisition has not been completed by that date, (2) final, non-appealable denial of required regulatory approvals or an injunction prohibiting the transactions contemplated by the Iberville Bank Acquisition Agreement, or (3) a breach by the other party that is not or cannot be cured within 45 days' notice of such breach if such breach would result in a failure of the conditions to closing set forth in the Iberville Bank Acquisition Agreement.

Under certain circumstances, the Iberville Bank Acquisition Agreement may be terminated in the event that the Iberville Bank Parent Board of Directors approves an alternative transaction. In the event of a termination due to approval of an alternative transaction, the Iberville Bank Parent will be required to pay the Company a termination fee of $1,088,500.

Regulatory Approvals Required for the Iberville Bank Acquisition

The Iberville Bank Acquisition is subject to the prior approval of, or waiver therefrom, of the Office of the Comptroller of the Currency ("OCC") and the Board of Governors of the Federal Reserve System ("Federal Reserve"). On October 19, 2016, the Company filed an application with the OCC seeking its approval of the Iberville Bank Acquisition. The application with the OCC is still pending and the Company expects to receive a decision from the OCC during the fourth quarter of 2016. On November 10, 2016 the Company received a letter from the Federal Reserve acknowledging that the Iberville Bank Acquisition was exempt from the prior approval of the Federal Reserve.

Reasons for the Iberville Bank Acquisition

The Iberville Bank Acquisition will allow the Company to acquire an established franchise with deep ties to the local community and increase the Company's presence in one of the Gulf South's premier markets, ranking it in the top ten in deposit market share in the Baton Rouge, LA MSA. The Company believes the acquisition will allow it to leverage existing local infrastructure in the Baton Rouge, LA MSA while acquiring a low loan-to-deposit ratio and a low-cost deposit base with significant non-interest bearing deposits, which provides significant potential for loan growth. The Company further believes Iberville Bank has excellent credit quality due to their strong existing underwriting standards.

Board of Directors' Recommendation and Required Vote

Approval of Proposal 1 requires the affirmative vote of a majority of the shares of the Company's common stock represented and voting at a duly convened Special Meeting. The directors and executive officers of the Company, owning or controlling the vote with respect to an aggregate of 638,373 voting shares, or approximately 11.76% of the Company's outstanding common stock as of the Record Date, are expected to vote in favor of Proposal 1. The directors who purchased and are also holders of Series E Preferred Stock recognize that they have a personal interest in the approval of Proposal 1 (see "Interests of Certain Persons in the Share Conversion and Other Matters").

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" PROPOSAL 1.

PROPOSAL 2

APPROVAL OF AN ADJOURNMENT OR POSTPONEMENT OF THE MEETING

If we fail to receive a sufficient number of votes to constitute a quorum to hold the Special Meeting or to approve Proposal 1 at the Special Meeting, we may propose to adjourn or postpone the Special Meeting, whether or not a quorum is present, for a period of not more than 45 days, to (i) constitute a quorum for purposes of the Special Meeting or (ii) solicit additional Proxies from shareholders who have not submitted proxies in favor of the approval of Proposal 1, as necessary. The only business that may be transacted at any reconvened meeting is business that could have been transacted at the meeting that was adjourned, for example, Proposal 1, unless further notice of the adjourned meeting has been given in compliance with the requirements for a special meeting that specifies the additional purpose or purposes for which the meeting is called. During the reconvened meeting, votes that have previously been cast either in person or by proxy at the adjourned or postponed meeting will continue to be counted in the manner voted at the adjourned or postponed meeting.

We currently do not intend to propose adjourning or postponing the Special Meeting if there are sufficient votes represented at the Special Meeting to approve Proposal 1.

Board of Directors' Recommendation and Required Vote

Approval of Proposal 2 requires the affirmative vote of a majority of the shares of the Company's common stock represented and voting at the Special Meeting, assuming that a quorum is present.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2.

INTERESTS OF DIRECTORS AND EXECUTIVE OFFICERS

Certain of the Company's directors and executive officers participated in the Private Placement and therefore have an interest in the outcome of the Proposals. The following directors purchased shares of Series E Preferred Stock in the private placement in the following amounts: David W. Bomboy, M.D., 14,085 shares; M. Ray (Hoppy) Cole, Jr., 2,000 Shares; E. Ricky Gibson, 3,775 shares; Charles R. Lightsey, 28,169 shares; Fred A. McMurry, 5,634 shares (1), Ted E. Parker, 9,859 shares; J. Douglas Seidenburg, 11,584 shares and 2,500(2) shares, and Andrew D. Stetelman, 5,634 shares.

(1) Shares held of record by Oak Grove Land Company, Inc. Fred A. McMurry is 33% owner of the company. Fred A. McMurry disclaims beneficial ownership of the shares held by Oak Grove Land Company, Inc. except to the extent of his pecuniary interest therein.

(2) Shares held of record by M.D. Outdoor, LLC. J. Douglas Seidenburg is a 50% owner of the company. J. Douglas Seidenburg disclaims beneficial ownership of the shares held by M.D. Outdoor, LLC, except to the extent of his pecuniary interest therein.

Assuming shareholder approval of Proposal 1 and the resulting issuance of common stock as described above, none of these individuals will have beneficial ownership in excess of five percent (5%) of the outstanding shares of the common stock.

SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of common stock in the Company owned by the directors, nominees for director, and executive officers, as of October 21, 2016.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Unvested Restricted Stock(2)	Percent of Class(3)
David W. Bomboy, M.D.	106,995	4,000	2.04 %

M. Ray (Hoppy) Cole, Jr.	33,539	29,597	1.16	%
E. Ricky Gibson	84,744	8,500	1.72	%
Charles R. Lightsey	47,987	4,000	0.96	%
Fred A. McMurry	79,885	4,000	1.55	%
Gregory H. Mitchell	5,001	4,000	0.17	%
Ted E. Parker	66,813	4,000	1.30	%
J. Douglas Seidenburg	78,656	4,000	1.52	%
Andrew D. Stetelman	38,283	4,000	0.78	%
Dee Dee Lowery	19,282	11,091	0.56	%
Executive Officers, Directors, and Nominees as a group	561,185	77,188	11.76	%

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(1) Includes shares for which the named person:

- has sole voting and investment power,
- has shared voting and investment power with a spouse, or
- holds in an IRA or other retirement plan program, unless otherwise indicated in these footnotes.

(2) Restricted Stock granted under The First Bancshares, Inc. 2007 Stock Incentive Plan

(3) Calculated based on 5,428,017 shares outstanding

Financial Statements

Our Audited Consolidated Financial Statements (including Notes thereto) at December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015, as included in our Annual Reports on Form 10-K for the fiscal years ended December 31, 2015 and 2014, are attached to the proxy statement as Appendix A and thereby incorporated by reference herein. Our Unaudited Consolidated Financial Statements (including Notes thereto) at September 30, 2016 and December 31, 2015 and for the three-month and nine-month periods ended September 30, 2016 and September 30, 2015, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016, are attached to this proxy statement as Appendix B and thereby incorporated by reference herein. See "Incorporation by Reference of Information About the Company, Financial Statements and Related Information" below.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition at December 31, 2015 and December 31, 2014 and Results of Operations for each of the years in the three-year period ended December 31, 2015, as included in our Annual Reports on Form 10-K for the fiscal years ended December 31, 2015 and 2014, is attached to this proxy statement as Appendix A and thereby incorporated by reference herein. Management's Discussion and Analysis of Financial Condition at September 30, 2016 and December 31, 2015 and Results of Operations for the three-month and nine-month periods ended September 30, 2016 and September 30, 2015, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016, is attached to this proxy statement as Appendix B and thereby incorporated by reference herein. See "Incorporation by Reference of Information About the Company, Financial Statements and Related Information" below.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with our accountants required to be disclosed pursuant to Item 304 of Regulation S-K.

Quantitative and Qualitative Disclosures About Market Risk

Information regarding our quantitative and qualitative disclosures about market risk is contained in the section entitled “Liquidity and Market Risk Management” in Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016, which is attached hereto as Appendix C. See “Incorporation by Reference of Information About the Company, Financial Statements and Related Information” below.

T. E. Lott & Company

Representatives of T. E. Lott & Company, the Company’s accounting firm are expected to be present at the meeting to respond to appropriate questions, and those representatives will also have an opportunity to make a statement if they desire to do so.

INCORPORATION BY REFERENCE OF INFORMATION ABOUT THE COMPANY, FINANCIAL STATEMENTS AND RELATED INFORMATION

The SEC allows us to “incorporate by reference” into this document important business and financial information about the Company from other documents we file with the SEC and that are being provided with this proxy statement. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this document. Sections of the following documents are incorporated herein by reference:

- Our Audited Consolidated Financial Statements (including Notes thereto), and independent auditor’s reports thereto, at December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015 on (i) on pages 30 through 74 of the Company's Annual Report to Shareholders for the year ended December 31, 2015 and (ii) pages 30 through 76 of the Company's Annual Report to Shareholders for the year ended December 31, 2014, which are included as Appendix A to this proxy statement;

- Management’s Discussion and Analysis of Financial Condition at December 31, 2015 and December 31, 2014 and Results of Operations for each of the years in the three-year period ended December 31, 2015 on (i) on pages 6 through 28 of the Company's Annual Report to Shareholders for the year ended December 31, 2015 and (ii) on pages 6 through 28 of the Company's Annual Report to Shareholders for the year ended December 31, 2014, which are included as Appendix A to this proxy statement;

- Our Unaudited Consolidated Financial Statements (including Notes thereto) at September 30, 2016 and December 31, 2015 and for the three-month and nine-month periods ended September 30, 2016 and September 30, 2015 on pages 2 through 28 (Item 1 of Part I) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, which is included as Appendix B to this proxy statement;

- Management’s Discussion and Analysis of Financial Condition at September 30, 2016 and December 31, 2015 and Results of Operations for the three-month and nine-month periods ended September 30, 2016 and September 30, 2015 on pages 29 through 48 (Item 2 of Part I) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, which is included as Appendix B to this proxy statement; and

- Information regarding our quantitative and qualitative disclosures about market risk is contained in the section entitled “Liquidity and Market Risk Management” in Management’s Discussion and Analysis of Financial Condition and Results of Operations on page 49 of our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016, which is included as Appendix B to this proxy statement.

SOLICITATION OF PROXIES

The cost of soliciting proxies from shareholders will be borne by the Company. The initial solicitation will be by mail. Thereafter, proxies may be solicited by directors, officers and employees of the Company or the bank, by means of telephone, telegraph or personal contact, but without additional compensation therefore. The Company will reimburse brokers and other persons holding shares as nominees for their reasonable expenses in sending proxy soliciting material to the beneficial owners.

The accompanying Proxy is being solicited by the Board of Directors of the Company.

SHAREHOLDER PROPOSALS FOR THE 2017 ANNUAL MEETING

SEC Rule 14a-8. If you are a shareholder who would like us to include your proposal in our notice of the 2017 annual meeting and related proxy materials, you must follow SEC Rule 14a-8. In submitting your proposal, our Corporate Secretary must receive your proposal, in writing, at our principal executive offices, no later than December 16, 2016. If you do not follow Rule 14a-8, we will not consider your proposal for inclusion in next year's proxy statement.

Director Nomination Procedures. Under our Bylaws, a shareholder who wishes to nominate an individual for election to the Board of Directors directly at an annual meeting, or to propose any business to be considered at an annual meeting, must deliver advance notice of such nomination or business to the Company. The shareholder must be a shareholder as of the date the notice is delivered and at the time of the annual meeting and must be entitled to vote at the meeting. The notice must be in writing and contain the information specified in our Bylaws for a director nomination, and director nominees must satisfy the requirements specified in our Bylaws. If you would like to receive a printed copy of our Bylaws at no cost you may request these by contacting our Corporate Secretary in writing at The First Bancshares, Inc., 6480 US Highway 98 West, Hattiesburg, Mississippi 39402 or by phone at 601-268-8998.

Based on this year's annual meeting date, to be timely, the written notice must be delivered not earlier than February 25, 2017 (the 90th day prior to the first anniversary of this year's annual meeting) and not later than April 6, 2017 (the 50th day prior to the first anniversary of this year's annual meeting) to the Corporate Secretary at our principal executive offices by mail.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act, and we are required to file reports and proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and information at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site that contains reports, proxy and information statements and other information regarding registrants, including Center Financial Corporation, that file electronically with the SEC. You may access the SEC's web site at http://www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at www.thefirstbank.com.

APPENDIX A

ANNUAL REPORTS ON FORM 10-K FOR THE FISCAL YEARS ENDED DECEMBER 31, 2015 AND 2014.

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THE FIRST BANCSHARES, INC.
2015 ANNUAL REPORT

SELECTED CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars In Thousands, Except Per Share Data)

	December 31,				
	2015	2014	2013	2012	2011
Earnings:					
Net interest income	$36,994	$33,398	$28,401	$22,194	$19,079
Provision for loan losses	410	1,418	1,076	1,228	1,468
Noninterest income	7,588	7,803	7,083	6,324	4,598
Noninterest expense	32,161	30,734	28,165	22,164	18,870
Net income	8,799	6,614	4,639	4,049	2,871
Net income applicable to common stockholders	8,456	6,251	4,215	3,624	2,529
Per common share data:					
Basic net income per share	$1.57	$1.20	$.98	$1.17	$.83
Diluted net income per share	1.55	1.19	.96	1.16	.82
Per share data:					
Basic net income per share	$1.64	$1.27	$1.07	$1.31	$.94
Diluted net income per share	1.62	1.25	1.06	1.29	.93
Selected Year End Balances:					
Total assets	$1,145,131	$1,093,768	$940,890	$721,385	$681,413
Securities	254,959	270,174	258,023	226,301	221,176
Loans, net of allowance	769,742	700,540	577,574	408,970	383,418
Deposits	916,695	892,775	779,971	596,627	573,394
Stockholders’ equity	103,436	96,216	85,108	65,885	60,425

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Purpose

The purpose of management's discussion and analysis is to make the reader aware of the significant components, events, and changes in the consolidated financial condition and results of operations of the Company and The First during the year ended December 31, 2015, when compared to the years 2014 and 2013. The Company's consolidated financial statements and related notes should also be considered.

Critical Accounting Policies

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

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

Goodwill is assessed for impairment both annually and when events or circumstances occur that make it more likely than not that impairment has occurred. As part of its testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines the fair value of a reporting unit is less than its carrying amount using these qualitative factors, the Company then compares the fair value of goodwill with its carrying amount, and then measures impaired loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. No impairment was indicated when the annual test was performed in 2015.

Overview

The First Bancshares, Inc. (the Company) was incorporated on June 23, 1995, and serves as a bank holding company for The First, A National Banking Association ("The First"), located in Hattiesburg, Mississippi. The First began operations on August 5, 1996, from its main office in the Oak Grove community, which is on the western side of Hattiesburg. The First has 30 locations in South Mississippi, South Alabama and Louisiana. See Note C of Notes to Consolidated Financial Statements for information regarding branch acquisitions. The Company and The First engage in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns, and individuals.

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

The Company increased from approximately $1.1 billion in total assets, and $892.8 million in deposits at December 31, 2014 to approximately $1.1 billion in total assets, and $916.7 million in deposits at December 31, 2015. Loans net of allowance for loan losses increased from $701.0 million at December 31, 2014 to approximately $769.7 million at December 31, 2015. The Company increased from $96.2 million in stockholders’ equity at December 31, 2014 to approximately $103.4 million at December 31, 2015. The First reported net income of $9,620,000 and $7,385,000 for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, the Company reported consolidated net income applicable to common stockholders of $8,456,000 and $6,251,000, respectively. The following discussion should be read in conjunction with the “Selected Consolidated Financial Data” and the Company's Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere.

SELECTED CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars In Thousands, Except Per Share Data)

	December 31,				
	2015	2014	2013	2012	2011
Earnings:					
Net interest income	$36,994	$33,398	$28,401	$22,194	$19,079
Provision for loan losses	410	1,418	1,076	1,228	1,468
Noninterest income	7,588	7,803	7,083	6,324	4,598
Noninterest expense	32,161	30,734	28,165	22,164	18,870
Net income	8,799	6,614	4,639	4,049	2,871
Net income applicable to common stockholders	8,456	6,251	4,215	3,624	2,529
Per common share data:					
Basic net income per share	$1.57	$1.20	$.98	$1.17	$.83
Diluted net income per share	1.55	1.19	.96	1.16	.82
Per share data:					
Basic net income per share	$1.64	$1.27	$1.07	$1.31	$.94
Diluted net income per share	1.62	1.25	1.06	1.29	.93

Selected Year End Balances:

Total assets	$1,145,131	$1,093,768	$940,890	$721,385	$681,413
Securities	254,959	270,174	258,023	226,301	221,176
Loans, net of allowance	769,742	700,540	577,574	408,970	383,418
Deposits	916,695	892,775	779,971	596,627	573,394
Stockholders' equity	103,436	96,216	85,108	65,885	60,425

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Results of Operations

The following is a summary of the results of operations by The First for the years ended December 31, 2015 and 2014.

	2015	2014
	(In thousands)	
Interest income	$40,196	$36,365
Interest expense	3,022	2,791
Net interest income	37,174	33,574
Provision for loan losses	410	1,418
Net interest income after provision for loan losses	36,764	32,156
Other income	7,589	7,439
Other expense	31,032	29,477
Income tax expense	3,701	2,733
Net income	$9,620	$7,385

The following reconciles the above table to the amounts reflected in the consolidated financial statements of the Company at December 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Net interest income:		
Net interest income of The First	$37,174	$33,574
Intercompany eliminations	(180)	(176)
	$36,994	$33,398
Net income applicable to common stockholders:		
Net income of The First	$9,620	$7,385
Net loss of the Company, excluding intercompany accounts	(1,164)	(1,134)
	$8,456	$6,251

Consolidated Net Income

The Company reported consolidated net income applicable to common stockholders of $8,456,242 for the year ended December 31, 2015, compared to a consolidated net income of $6,250,743 for the year ended December 31, 2014. The increase in income was attributable to an increase in net interest income of $3.6 million or 10.8%, which was offset by an increase in other expenses of $1.4 million or 4.6%.

Consolidated Net Interest Income

The largest component of net income for the Company is net interest income, which is the difference between the income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the rates earned on the Company's interest-earning assets and the rates paid on its interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of its interest-earning assets and interest-bearing liabilities.

Consolidated net interest income was approximately $36,994,000 for the year ended December 31, 2015, as compared to $33,398,000 for the year ended December 31, 2014. This increase was the direct result of increased loan volumes during 2015 as compared to 2014. Average interest-bearing liabilities for the year 2015 were $822,708,000 compared to $746,025,000 for the year 2014. At December 31, 2015, the net interest spread, the difference between the yield on earning assets and the rates paid on interest-bearing liabilities, was 3.55% compared to 3.50% at December 31, 2014.

The net interest margin (which is net interest income divided by average earning assets) was 3.63% for the year 2015 compared to 3.58% for the year 2014. Rates paid on average interest-bearing liabilities decreased to .39% for the year 2015 compared to .40% for the year 2014. Interest earned on assets and interest accrued on liabilities is significantly influenced by market factors, specifically interest rates as set by Federal agencies. Average loans comprised 71.7% of average earning assets for the year 2015 compared to 67.8% for the year 2014.

Average Balances, Income and Expenses, and Rates. The following tables depict, for the periods indicated, certain information related to the average balance sheet and average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

Average Balances, Income and Expenses, and Rates

	Years Ended December 31,								
	2015			2014			2013		
	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate	Average Balance	Income/ Expenses	Yield/ Rate
	(Dollars in thousands)								
Assets									
Earning Assets									
Loans (1)(2)	$730,326	$34,242	4.69 %	$632,049	$30,276	4.79 %	$583,200	$25,736	4.41 %
Securities	256,462	5,803	2.26 %	271,247	5,957	2.20 %	248,237	5,419	2.18 %
Federal funds sold (3)	24,582	64	.26 %	24,845	53	.21 %	18,564	62	.33 %
Other	7,585	93	1.23 %	3,827	85	2.22 %	7,404	101	1.36 %
Total earning assets	1,018,955	40,202	3.94 %	931,968	36,371	3.90 %	857,405	31,318	3.65 %
Cash and due from banks	31,378			30,657			25,447		
Premises and equipment	33,797			33,252			30,816		
Other assets	44,375			40,428			33,314		
Allowance for loan losses	(6,313)			(5,983)			(5,240)		
Total assets	$1,122,192			$1,030,322			$941,742		
Liabilities									
Interest-bearing liabilities	$822,708	$3,208	.39 %	$746,025	$2,973	.40 %	$728,322	$2,917	.40 %
Demand deposits (1)	196,284			184,037			115,909		
Other liabilities	4,594			11,990			12,430		
Stockholders' equity	98,606			88,270			85,081		
Total liabilities and stockholders' equity	$1,122,192			$1,030,322			$941,742		

Net interest spread		3.55 %		3.50 %		3.25 %
Net yield on interest-earning assets	$ 36,994	3.63 %	$ 33,398	3.58 %	$ 28,401	3.31 %

(1) All loans and deposits were made to borrowers in the United States. Includes nonaccrual loans of $7,368, $6,056, and $3,181, respectively, during the periods presented. Loans include held for sale loans.

(2) Includes loan fees of $692, $717, and $525, respectively.

(3) Includes EBA-MNBB and Federal Reserve – New Orleans.

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

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Analysis of Changes in Consolidated Net Interest Income

	Year Ended December 31, 2015 versus 2014			Year Ended December 31, 2014 versus 2013		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)					
Earning Assets						
Loans	$3,826	$140	$3,966	$2,154	$2,386	$4,540
Securities	(298)	144	(154)	502	36	538
Federal funds sold	19	(8)	11	21	(30)	(9)
Other short-term investments	3	5	8	(49)	33	(16)
Total interest income	3,550	281	3,831	2,628	2,425	5,053
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	204	66	270	88	(31)	57
Money market accounts and savings	6	(24)	(18)	82	(57)	25
Time deposits	(108)	50	(58)	59	62	121
Borrowed funds	77	(36)	41	1,113	(1,260)	(147)
Total interest expense	179	56	235	1,342	(1,286)	56
Net interest income	$3,371	$225	$3,596	$1,286	$3,711	$4,997

Interest Sensitivity. The Company monitors and manages the pricing and maturity of its assets and liabilities in order to diminish the potential adverse impact that changes in interest rates could have on its net interest income. A monitoring technique employed by the Company is the measurement of the Company's interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. The Company also performs asset/liability modeling to assess the impact varying interest rates and balance sheet mix assumptions will have on net interest income. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. The Company evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and repricing, funding sources and pricing, and off-balance sheet commitments in order to decrease interest rate sensitivity risk.

The following tables illustrate the Company's consolidated interest rate sensitivity and consolidated cumulative gap position at December 31, 2013, 2014, and 2015.

	December 31, 2013				
	Within Three Months	**After Three Through Twelve Months**	**Within One Year**	**Greater Than One Year or Nonsensitive**	Total
	(Dollars in thousands)				
Assets					
Earning Assets:					
Loans	$89,314	$ 98,315	$187,629	$ 395,673	$583,302
Securities (2)	10,114	16,006	26,120	231,903	258,023
Funds sold and other	967	14,205	15,172	-	15,172
Total earning assets	$100,395	$ 128,526	$228,921	$ 627,576	$856,497
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$-	$ 240,513	$240,513	$ -	$240,513
Money market accounts	107,564	-	107,564	-	107,564
Savings deposits (1)	-	55,113	55,113	-	55,113
Time deposits	46,875	87,475	134,350	68,637	202,987
Total interest-bearing deposits	154,439	383,101	537,540	68,637	606,177
Borrowed funds (3)	37,000	4,000	41,000	11,000	52,000
Total interest-bearing liabilities	191,439	387,101	578,540	79,637	658,177
Interest-sensitivity gap per period	$(91,044)	$ (258,575)	$(349,619)	$ 547,939	$198,320
Cumulative gap at December 31, 2013	$(91,044)	$ (349,619)	$(349,619)	$ 198,320	$198,320
Ratio of cumulative gap to total earning assets at December 31, 2013	(10.6)%	(40.8)%	(40.8)%	23.2 %	

	December 31, 2014				
	Within Three Months	**After Three Through Twelve Months**	**Within One Year**	**Greater Than One Year or Nonsensitive**	Total
	(Dollars in thousands)				

Assets					
Earning Assets:					
Loans	$99,183	$ 82,644	$181,827	$ 524,808	$706,635
Securities (2)	14,266	14,880	29,146	241,028	270,174
Funds sold and other	386	13,899	14,285	-	14,285
Total earning assets	$113,835	$ 111,423	$225,258	$ 765,836	$991,094
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$-	$ 301,721	$301,721	$ -	$301,721
Money market accounts	117,018	-	117,018	-	117,018
Savings deposits (1)	-	66,615	66,615	-	66,615
Time deposits	53,529	78,581	132,110	73,949	206,059
Total interest-bearing deposits	170,547	446,917	617,464	73,949	691,413
Borrowed funds (3)	40,004	40,464	80,468	8,982	89,450
Total interest-bearing liabilities	210,551	487,381	697,932	82,931	780,863
Interest-sensitivity gap per period	$(96,716)	$ (375,958)	$(472,674)	$ 682,905	$210,231
Cumulative gap at December 31, 2014	$(96,716)	$ (472,674)	$(472,674)	$ 210,231	$210,231
Ratio of cumulative gap to total earning assets at December 31, 2014	(9.8)%	(47.7)%	(47.7)%	21.2 %	

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	December 31, 2015				
	Within Three Months	**After Three Through Twelve Months**	**Within One Year**	**Greater Than One Year or Nonsensitive**	Total
	(Dollars in thousands)				
Assets					
Earning Assets:					
Loans	$101,160	$ 76,996	$178,156	$ 598,333	$776,489
Securities (2)	14,831	18,100	32,931	222,028	254,959
Funds sold and other	321	17,303	17,624	-	17,624
Total earning assets	$116,312	$ 112,399	$228,711	$ 820,361	$1,049,072
Liabilities					
Interest-bearing liabilities:					
Interest-bearing deposits:					
NOW accounts (1)	$-	$ 373,686	$373,686	$ -	$373,686
Money market accounts	105,434	-	105,434	-	105,434
Savings deposits (1)	-	68,657	68,657	-	68,657
Time deposits	37,222	83,549	120,771	58,702	179,473
Total interest-bearing deposits	142,656	525,892	668,548	58,702	727,250
Borrowed funds (3)	81,130	21,191	102,321	8,000	110,321
Total interest-bearing liabilities	223,786	547,083	770,869	66,702	837,571
Interest-sensitivity gap per period	$(107,474)	$ (434,684)	$(542,158)	$ 753,659	$211,501
Cumulative gap at December 31, 2015	$(107,474)	$ (542,158)	$(542,158)	$ 211,501	$211,501
Ratio of cumulative gap to total earning assets at December 31, 2015	(10.2)%	(51.7)%	(51.7)%	20.2 %	

(1) NOW and savings accounts are subject to immediate withdrawal and repricing. These deposits do not tend to immediately react to changes in interest rates and the Company believes these deposits are a stable and predictable funding source. Therefore, these deposits are included in the repricing period that management believes most closely matches the periods in which they are likely to reprice rather than the period in which the funds can be withdrawn contractually.

(2) Securities include mortgage backed and other installment paying obligations based upon stated maturity dates.

(3) Does not include subordinated debentures of $10,310,000

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

Provision and Allowance for Loan Losses

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

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

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

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

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

Local Trends: (Updated quarterly usually the month following quarter end)

Local Unemployment Rate
Insurance Issues (Windpool Areas)
Bankruptcy Rates (Increasing/Declining)
Local Commercial R/E Vacancy Rates
Established Market/New Market
Hurricane Threat

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National Trends: (Updated quarterly usually the month following quarter end)

Gross Domestic Product (GDP)
Home Sales
Consumer Price Index (CPI)
Interest Rate Environment (Increasing/Steady/Declining)
Single Family Construction Starts
Inflation Rate
Retail Sales

Portfolio Trends: (Updated monthly as the ALLL is calculated)

Second Mortgages
Single Pay Loans
Non-Recourse Loans
Limited Guaranty Loans
Loan to Value Exceptions
Secured by Non-Owner Occupied Property
Raw Land Loans
Unsecured Loans

Measurable Bank Trends: (Updated quarterly)

Delinquency Trends
Non-Accrual Trends
Net Charge Offs
Loan Volume Trends
Non-Performing Assets
Underwriting Standards/Lending Policies
Experience/Depth of Bank Lending Management

Our model takes into account many local and national economic factors as well as portfolio trends. Local and national economic trends are measured quarterly, typically in the month following quarter end to facilitate the release of economic data from the reporting agencies. These factors are allocated a basis point value ranging from -25 to +25 basis points and directly affect the amount reserved for each branch. As of December 31, 2015, most economic indicators both local and national pointed to a weak economy thus most factors were assigned a positive basis point value. This increased the amount of the allowance that was indicated by historical loss factors. Portfolio trends are measured monthly on a per branch basis to determine the percentage of loans in each branch that the Bank has determined as having more risk. Portfolio risk is defined as areas in the Bank’s loan portfolio in which there is additional risk involved in the loan type or some other area in which the Bank has identified as having more risk. Each area is tracked on bank-wide as well as on a branch-wide basis. Branches are analyzed based on the gross percentage of concentrations of the Bank as a whole. Portfolio risk is determined by analyzing concentrations in the areas outlined by determining the percentage of each branch’s total portfolio that is made up of the particular loan type and then comparing that concentration to the Bank as a whole. Branches with concentrations in these areas are graded on a scale from – 25 basis points to + 25 basis points. Second mortgages, single pay loans, loans secured by raw land, unsecured loans and loans secured by non owner occupied property are considered to be of higher risk than those of a secured and amortizing basis. LTV exceptions place the Bank at risk in the event of repossession or foreclosure.

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

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

At December 31, 2015, the consolidated allowance for loan losses amounted to approximately $6.7 million, or .87% of outstanding loans. Including valuation accounting adjustments on acquired loans, the total valuation plus ALLL was 1.11% of loans at December 31, 2015. At December 31, 2014, the allowance for loan losses amounted to approximately $6.1 million, which was .86% of outstanding loans. The Company’s provision for loan losses was $410,000 for the year ended December 31, 2015, compared to $1,418,000 for the year ended December 31, 2014.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis. Impaired loans not deemed collateral dependent are analyzed according to the ultimate repayment source, whether that is cash flow from the borrower, guarantor or some other source of repayment. Impaired loans are deemed collateral dependent if in the Bank’s opinion the ultimate source of repayment will be generated from the liquidation of collateral.

The Company discontinues accrual of interest on loans when management believes, after considering economic and business conditions and collection efforts, that a borrower’s financial condition is such that the collection of interest is doubtful. Generally, the Company will place a delinquent loan in nonaccrual status when the loan becomes 90 days or more past due. At the time a loan is placed in nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain.

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The following tables illustrate the Company's past due and nonaccrual loans at December 31, 2015 and 2014.

	December 31, 2015 (In thousands)		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Non-Accrual
Real Estate-construction	$311	$ -	$ 2,956
Real Estate-mortgage	3,339	29	2,055
Real Estate-nonfarm nonresidential	736	-	2,225
Commercial	97	-	100
Consumer	70	-	32
Total	$4,553	$ 29	$ 7,368

	December 31, 2014 (In thousands)		
	Past Due 30 to 89 Days	Past Due 90 days or more and still accruing	Non-Accrual
Real Estate-construction	$428	$ -	$ 2,747
Real Estate-mortgage	3,208	208	2,164
Real Estate-nonfarm nonresidential	3,408	461	1,102
Commercial	29	-	5
Consumer	90	-	38
Total	$7,163	$ 669	$ 6,056

Total nonaccrual loans at December 31, 2015, amounted to $7.4 million which was an increase of $1.3 million from the December 31, 2014, amount of $6.1 million. Management believes these relationships were adequately reserved at December 31, 2015. Restructured loans not reported as past due or nonaccrual at December 31, 2015, amounted to $2.8 million.

A potential problem loan is one in which management has serious doubts about the borrower's future performance under the terms of the loan contract. These loans are current as to principal and interest and, accordingly, they are not included in nonperforming asset categories. The level of potential problem loans is one factor used in the determination of the adequacy of the allowance for loan losses. At December 31, 2015 and December 31, 2014, The

First had potential problem loans of $17,878,000 and $20,946,000, respectively.

Consolidated Allowance For Loan Losses

(In thousands)

	Years Ended December 31,				
	2015	2014	2013	2012	2011
Average loans outstanding	$730,326	$632,049	$583,200	$388,012	$354,295
Loans outstanding at year end	$776,489	$706,635	$583,302	$413,697	$387,929
Total nonaccrual loans	$7,368	$6,056	$3,181	$3,401	$5,125
Beginning balance of allowance	$6,095	$5,728	$4,727	$4,511	$4,617
Loans charged-off	(843)	(1,459)	(759)	(1,190)	(1,987)
Total loans charged-off	(843)	(1,459)	(759)	(1,190)	(1,987)
Total recoveries	1,085	408	684	178	413
Net loans (charged-off) recoveries	242	(1,051)	(75)	(1,012)	(1,574)
Provision for loan losses	410	1,418	1,076	1,228	1,468
Balance at year end	$6,747	$6,095	$5,728	$4,727	$4,511
Net charge-offs (recoveries) to average loans	(.03)%	.17%	.01%	.26%	.44%
Allowance as percent of total loans	.87%	.86%	.98%	1.14%	1.16%
Nonperforming loans as a percentage of total loans	.95%	.86%	.55%	.82%	1.32%
Allowance as a multiple of nonaccrual loans	.92 X	1.0 X	1.8 X	1.4 X	.88 X

At December 31, 2015, the components of the allowance for loan losses consisted of the following:

	Allowance (In thousands)
Allocated:	
Impaired loans	$ 957
Graded loans	5,790
	$ 6,747

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

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The following table represents the activity of the allowance for loan losses for the years 2015 and 2014.

Analysis of the Allowance for Loan Losses

	Years Ended December 31,	
	2015	2014
	(Dollars in thousands)	
Balance at beginning of year	$ 6,095	$ 5,728
Charge-offs:		
Real Estate-construction	(162)	(47)
Real Estate-mortgage	(372)	(1,156)
Real Estate-nonfarm nonresidential	(-)	(-)
Commercial	(183)	(89)
Consumer	(126)	(167)
Total	(843)	(1,459)
Recoveries:		
Real Estate-construction	63	96
Real Estate-mortgage	827	212
Real Estate-nonfarm nonresidential	15	17
Commercial	99	15
Consumer	81	68
Total	1,085	408
Net (Charge-offs) Recoveries	242	(1,051)
Provision for Loan Losses	410	1,418
Balance at end of year	$ 6,747	$ 6,095

The following tables represent how the allowance for loan losses is allocated to a particular loan type as well as the percentage of the category to total loans at December 31, 2015 and 2014.

Allocation of the Allowance for Loan Losses

	December 31, 2015	
	(Dollars in thousands)	
	Amount	% of loans in each category

		to total loans	
Commercial Non Real Estate	$ 895	17.1	%
Commercial Real Estate	3,018	58.4	%
Consumer Real Estate	1,477	21.9	%
Consumer	141	2.5	%
Unallocated	1,216	0.1	%
Total	$ 6,747	100	%

	December 31, 2014 (Dollars in thousands)		
	Amount	% of loans in each category to total loans	
Commercial Non Real Estate	$ 713	15.3	%
Commercial Real Estate	3,355	57.9	%
Consumer Real Estate	1,852	24.2	%
Consumer	175	2.6	%
Unallocated	-	-	
Total	$ 6,095	100	%

Noninterest Income and Expense

Noninterest Income. The Company's primary source of noninterest income is service charges on deposit accounts. Other sources of noninterest income include bankcard fees, commissions on check sales, safe deposit box rent, wire transfer fees, official check fees and bank owned life insurance income.

Noninterest income decreased $215,000 or 2.8% during 2015 to $7,589,000 from $7,803,000 for the year ended December 31, 2014. The deposit activity fees were $5,014,000 for 2015 compared to $4,262,000 for 2014. Other service charges decreased by $392,000 or 20.2% from $1,938,000 for the year ended December 31, 2014, to $1,546,000 for the year ended December 31, 2015. Impairment losses on investment securities were $0 for 2015 and 2014.

Noninterest expense increased from $30.7 million for the year ended December 31, 2014, to $32.2 million for the year ended December 31, 2015. The Company experienced slight increases in most expense categories. The largest increase was in salaries and employee benefits, which increased by $1.1 million in 2015 as compared to 2014. These increases were due in part to a full year of the Bay Bank branches and the addition of the Mortgage Connection.

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

Noninterest Expense

	Years ended December 31,		
	2015	2014	2013
	(In thousands)		
Salaries and employee benefits	$18,537	$17,462	$14,855
Occupancy	3,422	3,141	2,648
Equipment	1,199	1,541	1,452
Marketing and public relations	497	445	451
Data processing	150	161	169
Supplies and printing	300	498	455
Telephone	631	616	731
Correspondent services	104	83	74
Deposit and other insurance	1,051	1,048	834
Professional and consulting fees	1,332	1,618	2,433

Postage	400	302	303
ATM expense	763	689	639
Other	3,775	3,130	3,121
Total	$32,161	$30,734	$28,165

Income Tax Expense

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

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Analysis of Financial Condition

Earning Assets

Loans. Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At December 31, 2015 and 2014, respectively, average loans accounted for 71.7% and 67.8% of average earning assets. Management attempts to control and counterbalance the inherent credit and liquidity risks associated with the higher loan yields without sacrificing asset quality to achieve its asset mix goals. Loans averaged $730.3 million during 2015, as compared to $632.0 million during 2014, and $583.2 million during 2013.

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

Composition of Loan Portfolio

	December 31, 2015			2014			2013		
	Amount	**Percent Of Total**		Amount	**Percent of Total**		Amount	**Percent of Total**	
	(Dollars in thousands)								
Mortgage loans held for sale	$3,974	0.5	%	$2,103	0.3	%	$3,680	0.6	%
Commercial, financial and agricultural	129,197	16.6	%	106,109	15.0	%	81,792	14.0	%
Real Estate:									
Mortgage-commercial	253,309	32.6	%	238,602	33.8	%	212,388	36.4	%
Mortgage-residential	272,180	35.1	%	256,406	36.3	%	202,343	34.7	%
Construction	99,161	12.8	%	84,935	12.0	%	67,287	11.5	%
Lease Financing Receivable	2,650	0.3	%						
Consumer and other	16,018	2.1	%	18,480	2.6	%	15,812	2.8	%
Total loans	776,489	100	%	706,635	100	%	583,302	100	%
Allowance for loan losses	(6,747)			(6,095)			(5,728)		
Net loans	$769,742			$700,540			$577,574		

In the context of this discussion, a "real estate mortgage loan" is defined as any loan, other than loans for construction purposes, secured by real estate, regardless of the purpose of the loan. The Company follows the common practice of financial institutions in the Company's market area of obtaining a security interest in real estate whenever possible, in addition to any other available collateral. This collateral is taken to reinforce the likelihood of the ultimate repayment of the loan and tends to increase the magnitude of the real estate loan portfolio component. Generally, the Company limits its loan-to-value ratio to 80%. Management attempts to maintain a conservative philosophy regarding its underwriting guidelines and believes it will reduce the risk elements of its loan portfolio through strategies that diversify the lending mix.

Loans held for sale consist of mortgage loans originated by the Bank and sold into the secondary market. Commitments from investors to purchase the loans are obtained upon origination.

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The following table sets forth the Company's commercial and construction real estate loans maturing within specified intervals at December 31, 2015.

Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

	December 31, 2015			
Type	**One Year or Less**	**Over One Year Through Five Years**	**Over Five Years**	Total
	(In thousands)			
Commercial, financial and agricultural	$44,176	$ 63,078	$ 21,943	$129,197
Real estate – construction	44,720	36,189	18,252	99,161
	$88,896	$ 99,267	$ 40,195	$228,358
Loans maturing after one year with:				
Fixed interest rates				$115,777
Floating interest rates				23,685
				$139,462

The information presented in the above table is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity.

Investment Securities. The investment securities portfolio is a significant component of the Company's total earning assets. Total securities averaged $256.5 million in 2015, as compared to $271.2 million in 2014 and $248.2 million in 2013. This represents 25.2%, 29.1%, and 29.0% of the average earning assets for the years ended December 31, 2015, 2014, and 2013, respectively. At December 31, 2015, investment securities were $255.0 million and represented 24.5% of earning assets. The Company attempts to maintain a portfolio of high quality, highly liquid investments with returns competitive with short-term U.S. Treasury or agency obligations. This objective is particularly important as the Company focuses on growing its loan portfolio. The Company primarily invests in securities of U.S. Government agencies, municipals, and corporate obligations with maturities up to five years.

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

Securities Portfolio

	December 31, 2015	2014	2013
	(In thousands)		
Available-for-sale			
U. S. Government agencies and Mortgage-backed Securities	$118,536	$120,407	$108,148
States and municipal subdivisions	97,889	104,582	108,079
Corporate obligations	22,346	28,785	26,852
Mutual finds	961	972	972
Total available-for-sale	239,732	254,746	244,051
Held-to-maturity			
U.S. Government agencies	1,092	2,193	2,438
States and municipal subdivisions	6,000	6,000	6,000
Total held-to-maturity	7,092	8,193	8,438
Total	$246,824	$262,939	$252,489

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The following table shows, at carrying value, the scheduled maturities and average yields of securities held at December 31, 2015.

Investment Securities Maturity Distribution and Yields (1)

	December 31, 2015							
(Dollars in thousands)	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held-to-maturity:								
U.S. Government agencies (2)	$-	-	$-	-	$-	-	$-	-
States and municipal subdivisions	-	-	-	-	6,000,000	.93 %	-	-
Total investment securities held-to-maturity	$-		$-		$6,000,000		$-	
Available-for-sale:								
U.S. Government agencies (3)	$7,034,600	.85 %	$9,602,910	1.25 %	$469,976	2.78 %	$2,503,464	3.20 %
States and municipal subdivisions	11,873,559	2.39 %	33,931,040	3.07 %	39,538,380	4.09 %	12,546,352	4.70 %
Corporate obligations and other	3,520,980	2.24 %	16,291,456	1.91 %	2,476,187	2.0 %	1,018,402	2.00 %
Total investment securities available-for-sale	$22,429,139		$59,825,406		$42,484,543		$16,068,218	

(1) Investments with a call feature are shown as of the contractual maturity date.
(2) Excludes mortgage-backed securities totaling $1.1 million with a yield of 2.63%.
(3) Excludes mortgage-backed securities totaling $98.9 million with a yield of 2.34% and mutual funds of $.9 million.

Short-Term Investments. Short-term investments, consisting of Federal Funds Sold, funds in due from banks and interest-bearing deposits with banks, averaged $24.6 million in 2015, $24.8 million in 2014, and $18.6 million in 2013. At December 31, 2015, and December 31, 2014, short-term investments totaled $321,000 and $386,000, respectively. These funds are a primary source of the Company's liquidity and are generally invested in an earning capacity on an overnight basis.

Deposits

Deposits. Average total deposits increased $109.8 million, or 14.3% in 2014. Average total deposits increased $75.2 million, or 8.6% in 2015. At December 31, 2015, total deposits were $916.7 million, compared to $892.8 million a year earlier, an increase of $23.9 million, or 2.7%.

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

Deposits

(Dollars in thousands)	December 31, 2015		2014		2013	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
Noninterest-bearing accounts	$189,445	20.6 %	$201,362	22.6 %	$173,793	22.3 %
NOW accounts	373,686	40.8 %	301,721	33.8 %	240,514	30.8 %
Money market accounts	105,434	11.5 %	117,018	13.1 %	107,564	13.8 %
Savings accounts	68,657	7.5 %	66,615	7.5 %	55,113	7.1 %
Time deposits less than $100,000	73,868	8.1 %	85,365	9.6 %	86,363	11.1 %
Time deposits of $100,000 or over	105,605	11.5 %	120,694	13.4 %	116,624	14.9 %
Total deposits	$916,695	100 %	$892,775	100 %	$779,971	100 %

The Company’s loan-to-deposit ratio was 84.3% at December 31, 2015 and 78.9% at December 31, 2014. The loan-to-deposit ratio averaged 76.8% during 2015. Core deposits, which exclude time deposits of $100,000 or more, provide a relatively stable funding source for the Company's loan portfolio and other earning assets. The Company's core deposits were $811.1 million at December 31, 2015 and $772.1 million at December 31, 2014. Management anticipates that a stable base of deposits will be the Company's primary source of funding to meet both its short-term and long-term liquidity needs in the future. The Company has purchased brokered deposits from time to time to help fund loan growth. Brokered deposits and jumbo certificates of deposit generally carry a higher interest rate than traditional core deposits. Further, brokered deposit customers typically do not have loan or other relationships with the Company. The Company has adopted a policy not to permit brokered deposits to represent more than 10% of all of the Company’s deposits.

The maturity distribution of the Company's certificates of deposit of $100,000 or more at December 31, 2015, is shown in the following table. The Company did not have any other time deposits of $100,000 or more.

Maturities of Certificates of Deposit

of $100,000 or More

(In thousands)	Within Three Months	After Three Through Twelve Months	After Twelve Months	Total
December 31, 2015	$ 22,363	$ 48,497	$ 34,745	$105,605

Borrowed Funds

Borrowed funds consist of advances from the Federal Home Loan Bank of Dallas, federal funds purchased and reverse repurchase agreements. At December 31, 2015, advances from the FHLB totaled $100.0 million compared to $84.5 million at December 31, 2014. The advances are collateralized by a blanket lien on the first mortgage loans in the amount of the outstanding borrowings, FHLB capital stock, and amounts on deposit with the FHLB. There were $5.3 million and $0 federal funds purchased at December 31, 2015 and December 31, 2014, respectively.

Reverse Repurchase Agreements consist of one $5,000,000 agreement. The agreement is secured by securities with a fair value of $5,501,503 at December 31, 2015 and $7,443,951 at December 31, 2014. The maturity date of the remaining agreement is September 26, 2017, with a rate of 3.81%.

Subordinated Debentures

In 2006, the Company issued subordinated debentures of $4,124,000 to The First Bancshares, Inc. Statutory Trust 2 (Trust 2). The Company is the sole owner of the equity of the Trust 2. The Trust 2 issued $4,000,000 of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 2. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2011 and thereafter, and mature in 2036. The Company entered into this arrangement to provide funding for expected growth.

In 2007, the Company issued subordinated debentures of $6,186,000 to The First Bancshares, Inc. Statutory Trust 3 (Trust 3). The Company is the sole owner of the equity of the Trust 3. The Trust 3 issued $6,000,000 of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust 3. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2012 and thereafter, and mature in 2037. The Company entered into this arrangement to provide funding for expected growth.

Capital

Total stockholders’ equity as of December 31, 2015, was $103.4 million, an increase of $7.2 million or approximately 7.5%, compared with stockholders' equity of $96.2 million as of December 31, 2014.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 600%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common stockholders' equity, excluding the unrealized gain (loss) on available-for-sale securities, minus certain intangible assets. Tier 2 capital consists of the general reserve for loan losses, subject to certain limitations. An institution’s total risk-based capital for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The risk-based regulatory minimum requirements are 6% for Tier 1 and 8% for total risk-based capital.

Bank holding companies and banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 4%. All but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. The Company and The First exceeded their minimum regulatory capital ratios as of December 31, 2015 and 2014.

The Federal Reserve and the Federal Deposit Insurance Corporation approved final capital rules in July 2013, that substantially amend the existing capital rules for banks. These new rules reflect, in part, certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010 (which standards are commonly referred to as “Basel III”) as well as requirements contemplated by the Dodd-Frank Act.

Under the new capital rules, the Company is required to meet certain minimum capital requirements that differ from past capital requirements. The rules implement a new capital ratio of common equity Tier 1 capital to risk-weighted assets. Common equity Tier 1 capital generally consists of retained earnings and common stock (subject to certain adjustments) as well as accumulated other comprehensive income (“AOCI”), except to the extent that the Company exercised a one-time irrevocable option to exclude certain components of AOCI as of March 31, 2015. The Company will also be required to establish a “conservation buffer,” consisting of a common equity Tier 1 capital amount equal to 2.5% of risk-weighted assets to be phased in by 2019. An institution that does not meet the conservation buffer will be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

The prompt corrective action rules are modified to include the common equity Tier 1 capital ratio and to increase the Tier 1 capital ratio requirements for the various thresholds. For example, the requirements for the Company to be considered well-capitalized under the rules will be a 5.0% leverage ratio, a 6.5% common equity Tier 1capital ratio, an 8.0% Tier 1 capital ratio, and a 10.0% total capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0%, and 8.0%, respectively.

The rules modify the manner in which certain capital elements are determined. The rules make changes to the methods of calculating the risk-weighting of certain assets, which in turn affects the calculation of the risk-weighted capital ratios. Higher risk weights are assigned to various categories of assets, including commercial real estate loans, credit facilities that finance the acquisition, development or construction of real property, certain exposures or credit that are 90 days past due or are nonaccrual, securitization exposures, and in certain cases mortgage servicing rights and deferred tax assets.

The Company was required to comply with the new capital rules on January 1, 2015, with a measurement date of March 31, 2015. The conservation buffer will be phased-in beginning in 2016, and will take full effect on January 1, 2019. Certain calculations under the rules will also have phase-in periods.

Analysis of Capital

	Adequately	Well		The First

Capital Ratios	Capitalized	Capitalized	The Company December 31, 2015	2014	December 31, 2015	2014
Leverage	4.0 %	5.0 %	8.7 %	8.4 %	8.6 %	8.4 %
Risk-based capital:						
Common equity Tier 1	4.5 %	6.5 %	-	-	-	-
Tier 1	6.0 %	8.0 %	11.1%	11.5%	11.0%	11.4%
Total	8.0 %	10.0 %	11.9%	12.3%	11.8%	12.2%

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Ratios

	2015	2014	2013
Return on assets (net income applicable to common stockholders divided by average total assets)	.75 %	.61 %	.45 %
Return on equity (net income applicable to common stockholders divided by average equity)	8.58%	7.1 %	5.0 %
Dividend payout ratio (dividends per share divided by net income per common share)	9.7 %	12.6%	15.6%
Equity to asset ratio (average equity divided by average total assets)	8.8 %	8.6 %	9.0 %

Liquidity Management

Liquidity management involves monitoring the Company's sources and uses of funds in order to meet its day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is very predictable and subject to a high degree of control at the time investment decisions are made; however, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control. Asset liquidity is provided by cash and assets which are readily marketable, which can be pledged, or which will mature in the near future. Liability liquidity is provided by access to core funding sources, principally the ability to generate customer deposits in the Company’s market area.

The Company's Federal Funds Sold position, which includes funds in due from banks and interest-bearing deposits with banks, is typically its primary source of liquidity, averaged $24.6 million during the year ended December 31, 2015 and totaled $17.6 million at December 31, 2015. Also, the Company has available advances from the Federal Home Loan Bank. Advances available are generally based upon the amount of qualified first mortgage loans which can be used for collateral. At December 31, 2015, advances available totaled approximately $342.9 million of which $100.0 million had been drawn, or used for letters of credit.

Management regularly reviews the liquidity position of the Company and has implemented internal policies which establish guidelines for sources of asset-based liquidity and limit the total amount of purchased funds used to support the balance sheet and funding from non-core sources.

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Subprime Assets

The Bank does not engage in subprime lending activities targeted towards borrowers in high risk categories.

Accounting Matters

Information on new accounting matters is set forth in Footnote B to the Consolidated Financial Statements included at Item 8 in this report. This information is incorporated herein by reference.

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the Company are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Company's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rat