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PETROLEUM & RESOURCES CORP
Form DEF 14A
February 23, 2004

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

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 (S) 240.14a-11(c) or (S) 240.14a-12

PETROLEUM & RESOURCES CORPORATION

(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) (4) 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
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Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Notes:

PETROLEUM & RESOURCES CORPORATION

Seven St. Paul Street
Baltimore, Maryland 21202

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

February 13, 2004

Notice is hereby given that the Annual Meeting of Stockholders of PETROLEUM & RESOURCES CORPORATION, a Maryland corporation (the Corporation), will be held at The Center Club, 100 Light Street, Baltimore, Maryland 21202, on Tuesday, March 30, 2004, at 11:00 a.m., for the following purposes:

- (1) to elect directors as identified in the Proxy Statement for the ensuing year;
- (2) to consider and vote upon the ratification of the selection of PricewaterhouseCoopers LLP as the firm of independent auditors to audit the books and accounts of the Corporation for or during the year ending December 31, 2004; and
- (3) to transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on February 13, 2004, as the record date for the determination of the stockholders entitled to notice of and to vote at this meeting.

By order of the Board of Directors,

LAWRENCE L. HOOPER, JR.

Vice President, General Counsel

and Secretary

Baltimore, MD

Note: Stockholders who do not expect to attend the meeting are requested to fill in, sign, date and return the accompanying proxy in the enclosed envelope without delay. Telephone and Internet voting are also offered.

PETROLEUM & RESOURCES CORPORATION

Seven St. Paul Street

Baltimore, Maryland 21202

Proxy Statement

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Petroleum & Resources Corporation, a Maryland corporation (the Corporation), for the Annual Meeting of Stockholders to be held on Tuesday, March 30, 2004, and is first being sent to stockholders on or about February 20, 2004.

Only stockholders of record at the close of business on February 13, 2004, may vote at the Annual Meeting to be held on March 30, 2004. On the record date, the Corporation had outstanding 21,736,777 shares of Common Stock (Common Stock).

The holders of the Common Stock shall be entitled to one vote per share. The Corporation has no other class of security outstanding. For Proposal (1), referred to below, directors shall be elected by a plurality of the votes cast at the meeting, and Proposal (2), referred to below, requires the affirmative vote of a majority of the votes cast at the meeting. Unless otherwise required by the Corporation's Articles of Incorporation or By-laws, or by applicable Maryland law, any other matter properly presented for a vote at the meeting will require the affirmative vote of a majority of the votes cast at the meeting. Proxies received by the Corporation that are marked "without authority" or "abstain," or that constitute a broker non-vote, are counted as present for purposes of determining a quorum at the meeting. Broker non-votes are shares held in the name of a broker or nominee for which the broker or nominee indicates that instructions have not been received from the beneficial owner or person entitled to vote and the broker or nominee does not have discretionary voting power. Proxies marked "withhold authority," abstentions and broker non-votes do not count as votes cast with respect to any proposal, and therefore, such proxies would have no effect on the outcome of Proposals (1) or (2), below.

The Annual Meeting is being held on March 30, 2004, for the following purposes: (1) election of directors of the Corporation; (2) ratification of the selection of PricewaterhouseCoopers LLP as the firm of independent auditors to audit the books and accounts of the Corporation for or during the year ending December 31, 2004; and (3) transaction of such other business as may properly come before the meeting or any adjournment thereof. At the date of this proxy statement, the only business that the management intends to present, or knows that others may present at the meeting, are Proposals (1) and (2). Should any other matter come before the meeting, however, action may be taken thereon pursuant to proxies in the form enclosed.

Except for Proposals (1) and (2) referred to above, the proxies confer discretionary authority on the persons named therein or their substitutes with respect to any business that may properly come before the meeting. Stockholders retain the right to revoke executed proxies at any time before they are voted by written notice to the Corporation, by executing a later dated proxy, or by appearing and voting at the meeting. Properly executed proxies will be voted as directed, but, if no direction is specified, the shares covered by a given proxy will be voted in favor of Proposals (1) and (2). Under Mary -

land Law, there are no appraisal or other dissenter rights with respect to any matter to be voted on at the Annual Meeting that is described herein.

The Corporation will pay all costs of soliciting proxies in the accompanying form. See Other Matters and Annual Report below. Solicitation will be made by mail, and officers, regular employees, and agents of the Corporation may also solicit proxies by telephone or personal interview. The Corporation expects to request brokers and nominees who hold stock in their names to furnish this proxy material to their customers and to solicit proxies from them, and will reimburse such brokers and nominees for their out-of-pocket and reasonable clerical expenses in connection therewith.

(1) ELECTION OF DIRECTORS

Unless contrary instructions are given by the stockholder signing a proxy, it is intended that each proxy in the accompanying form will be voted at the Annual Meeting for the election of the following nominees to the Board of Directors for the ensuing year, all of whom have consented to serve if elected:

Enrique R. Arzac
Phyllis O. Bonanno
Daniel E. Emerson
Edward J. Kelly, III
Thomas H. Lenagh

W. D. MacCallan
Kathleen T. McGahran
W. Perry Neff
Douglas G. Ober*
Landon Peters

John J. Roberts
Susan C. Schwab
Robert J. M. Wilson

If for any reason one or more of the nominees above named shall become unable or unwilling to serve when the election occurs, proxies in the accompanying form will, in the absence of contrary instructions, be voted for the election of the other nominees above named and may be voted for substitute nominees in the discretion of the persons named as proxies in the accompanying form. As an alternative to proxies being voted for substitute nominees, the size of the Board of Directors may be reduced so that there are no vacancies caused by a nominee above named becoming unable or unwilling to serve. The directors elected will serve until the next annual meeting or until their successors are elected, except as otherwise provided in the By-laws of the Corporation.

Information as to Nominees for Election as Directors (as of December 31, 2003)

Set forth below with respect to each nominee for director are his or her name and age, any positions held with the Corporation, other principal occupations during the past five years, other directorships and business affiliations, the year in which he or she first became a director, and the number of shares of Common Stock beneficially owned by him or her. Also set forth below is the number of shares of Common Stock beneficially owned by all directors and officers of the Corporation as a group. A separate table is provided showing the dollar value range of the shares beneficially owned by each director.

* Mr. Ober is an interested person, as defined by the Investment Company Act of 1940, because he is an officer of the Corporation.

Name, Age, Positions with the Corporation, Other Principal Occupations and Other Affiliations	Has been a Director since	Shares of Common Stock Beneficially Owned (a)(b)(c)(d)
Independent Directors		
Enrique R. Arzac, 62, Professor of Finance and Economics, formerly Vice Dean of Academic Affairs of the Graduate School of Business, Columbia University. Director of The Adams Express Company and Credit Suisse Asset Management Funds (8 funds) (investment companies).	1987	3,025
Phyllis O. Bonanno, 60, President & Chief Executive Officer of International Trade Solutions, Inc. (consultants). Formerly, President of Columbia College, Columbia, South Carolina, and Vice President of Warnaco Inc. (apparel). Director of Borg-Warner Inc. (industrial) and The Adams Express Company. Also on Board of Advisors for APTE, Inc. (software).	2003	500
Daniel E. Emerson, 79, Retired Executive Vice President of NYNEX Corporation (communications), retired Chairman of the Board of both NYNEX Information Resources Co. and NYNEX Mobile Communications Co. Previously, Executive Vice President and Director of New York Telephone Company. Presently, Chairman, The National YMCA Fund, Inc. Director of The Adams Express Company.	1987	10,316
Edward J. Kelly, III, 50, President and Chief Executive Officer of Mercantile Bankshares Corporation since March 2001. Formerly, Managing Director with J.P. Morgan Chase & Co. (investment bank and global financial institution) from February 1996 to January 2001. Director of AXIS Specialty Limited (insurance), The Adams Express Company, Hartford Financial Services Group, Constellation Energy Group, CIT Group (commercial finance) and CSX Corporation (transportation); and member of Board of Trustees of Johns Hopkins University.	2001	1,030
Thomas H. Lenagh, 85, Financial Advisor, Chairman of the Board, Photonics Product Group (crystals). Formerly, Chairman of the Board and Chief Executive Officer of Greiner Engineering Inc. (formerly Systems Planning Corp.) (consultants). Formerly, Treasurer and Chief Investment Officer of the Ford Foundation (charitable foundation). Director of Cornerstone Funds, Inc. (3 funds), Investors First Fund and The Adams Express Company (investment companies).	1987	2,219
W. D. MacCallan, 76, Retired Chairman of the Board and Chief Executive Officer of the Corporation. Director and former Chairman of the Board and Chief Executive Officer of The Adams Express Company. Formerly, consultant to the Corporation and The Adams Express Company.	1971	19,509
Kathleen T. McGahran, 53, Principal & Director of Pelham Associates, Inc. (executive education) and Adjunct Associate Professor, Columbia Executive Education, Graduate School of Business, Columbia University. Formerly, Associate Dean and Director of Executive Education and Associate Professor, Columbia University. Director of The Adams Express Company.	2003	665

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W. Perry Neff, 76, Private Financial Consultant. Retired Executive Vice President of Chemical Bank. Director of The Adams Express Company.	1971	474
Landon Peters, 73, Private Investor. Formerly, Investment Manager, Y.M.C.A. Retirement Fund and Executive Vice President and Treasurer and prior thereto Senior Vice President and Treasurer of The Bank of New York. Director of The Adams Express Company.	1987	5,758

Name, Age, Positions with the Corporation, Other Principal Occupations and Other Affiliations	Has been a Director since	Shares of Common Stock Beneficially Owned (a)(b)(c)(d)
John J. Roberts, 81, Senior Advisor to American International Group, Inc. (insurance) since September 1997, and formerly, Vice-Chairman, External Affairs, American International Group, Inc. from May 1989 to September 1997. Formerly, Chairman and Chief Executive Officer of American International Underwriters Corporation (insurance). Previously, President of American International Underwriters Corporation-U.S./Overseas Operations. Honorary Director of American International Group, Inc. and Director of The Adams Express Company.	1987	1,570
Susan C. Schwab, 48, Professor, formerly Dean, of the School of Public Affairs at the University of Maryland, College Park, since 1995. Formerly, Director of Corporate Business Development at Motorola, Inc. (electronics). Director of Calpine Corp. (energy) and The Adams Express Company.	2000	627
Robert J. M. Wilson, 83, Retired President of the Corporation. Director and retired President of The Adams Express Company.	1975	10,713
Interested Director		
Douglas G. Ober, 57, Chairman of the Board and Chief Executive Officer of the Corporation since April 1, 1991. Director, Chairman of the Board and Chief Executive Officer of The Adams Express Company.	1989	51,179(e)
Directors and executive officers of the Corporation as a group.		177,678

The address for each director is the Corporation's office, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202.

- (a) To the Corporation's knowledge, other than shares referred to in footnote (c) below, each director had sole investment and voting power with respect to the shares shown opposite his or her name, except for 2,552 shares shown for Mr. Peters, which were beneficially owned by his wife, and as to which he had shared investment power but no voting power and disclaims beneficial ownership.
- (b) Of the amounts shown as beneficially owned by the directors and executive officers as a group, 24,770 shares were held by the Trustee under the Employee Thrift Plan of the Corporation and the Employee Thrift Plan of The Adams Express Company.
- (c) The amounts shown include shares subject to options under the Corporation's Stock Option Plan (see Stock Option Plan below) held by Mr. Ober (36,436 shares), and directors and executive officers as a group (96,941 shares). Mr. Ober and the other officers with shares subject to options all disclaim beneficial ownership of those shares.
- (d) Calculated on the basis of 21,736,777 shares of Common Stock outstanding on December 31, 2003, each director owned less than 1.0% of the Common Stock outstanding. The directors and executive officers as a group owned less than 1.0% of the Common Stock outstanding.
- (e) Of the amounts shown, 15,196 shares beneficially owned by Mr. Ober were held by the Trustee under the Employee Thrift Plan of the Corporation.

<u>Independent Directors</u>	<u>Dollar Value of Shares Owned</u>
Enrique R. Arzac	\$50,001-\$100,000
Phyllis O. Bonanno	\$10,001-\$50,000
Daniel E. Emerson	greater than \$100,000
Edward J. Kelly, III	\$10,001-\$50,000
Thomas H. Lenagh	\$50,001-\$100,000
W. D. MacCallan	greater than \$100,000
Kathleen T. McGahran	\$10,001-\$50,000
W. Perry Neff	\$10,001-\$50,000
Landon Peters	greater than \$100,000
John J. Roberts	\$10,001-\$50,000
Susan C. Schwab	\$10,001-\$50,000
Robert J. M. Wilson	greater than \$100,000
Interested Director	
Douglas G. Ober	greater than \$100,000

The nominees identified above are also nominees for election to the Board of Directors of The Adams Express Company (Adams), the Corporation's largest stockholder (see Principal Stockholder on page 6).

Process for Stockholders to Communicate with Board

The Board of Directors has implemented a process for stockholders of the Corporation to send communications to the Board. Any stockholder desiring to communicate with the Board, or with specific individual directors, may so do by writing to the Secretary of the Corporation, at Petroleum & Resources Corporation, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202. The Secretary has been instructed by the Board to promptly forward all such communications to the addressees indicated thereon.

Policy on Board of Directors Attendance of Annual Meetings

The Corporation's policy with regard to attendance by the Board of Directors at Annual Meetings is that all directors are expected to attend, absent unusual and extenuating circumstances that prohibit a director from attending. The number of directors who attended the 2003 Annual Meeting was 8 (out of 11 directors).

Section 16(a) Beneficial Ownership Reporting Compliance

Each director and officer of the Corporation who is subject to Section 16 of the Securities Exchange Act of 1934 is required to report to the Securities and Exchange Commission by a specified date his or her beneficial ownership of or transactions in the Corporation's securities. Based upon a review of filings with the Securities and Exchange Commission and written representations that no other reports were required, the Corporation has no reason to believe that such director or officer has not filed all requisite reports with the Securities and Exchange Commission on a timely basis during 2003, with the exception that Mr. Neff sold shares of the Corporation in April 2003 and September 2003, which sales were reported on a Form 4 filed late by Mr. Neff.

Information as to Other Executive Officers

Set forth below are the names, ages and positions with the Corporation of all executive officers of the Corporation other than those who also serve as directors. Executive officers serve as such until the election of their successors.

Mr. Lawrence L. Hooper, Jr., 51, has served as Vice President since March 30, 1999, and as General Counsel and Secretary since April 1, 1997. Prior thereto, he was a partner in Tydings & Rosenberg L.L.P., a Baltimore, Maryland law firm.

Ms. Maureen A. Jones, 56, has served as Chief Financial Officer since March 26, 2002, as Vice President since January 1, 1998, and as Treasurer since January 1, 1993.

Mr. Joseph M. Truta, 59, has served as Executive Vice President since January 1, 1986.

Security Ownership of Management in the Corporation (a)	Shares of Common Stock Beneficially Owned (b)(c)(d)(e)
Name	
Lawrence L. Hooper, Jr.	14,165
Maureen A. Jones	16,369
Joseph M. Truta	39,559

- (a) As of December 31, 2003. Share ownership of directors and executive officers as a group is shown in the table beginning on page 3 and footnotes thereto.
- (b) To the Corporation's knowledge, each officer had sole investment and voting power with respect to the shares shown opposite his or her name above other than shares referred to in footnote (d) below.
- (c) Of the amounts shown, the following shares beneficially owned by the respective officer were held by the Trustee under the Employee Thrift Plan of the Corporation and the Employee Thrift Plan of Adams: Mr. Hooper (1,498 shares), Ms. Jones (3,267 shares), and Mr. Truta (4,809 shares).
- (d) The amounts shown include shares subject to options under the Corporation's Stock Option Plan (see Stock Option Plan below), held by Mr. Hooper (12,653 shares), Ms. Jones (13,102 shares), and Mr. Truta (34,750 shares). These officers disclaim beneficial ownership of those shares.
- (e) Calculated on the basis of 21,736,777 shares of Common Stock outstanding on December 31, 2003, each of the officers listed above owned less than 1.0% of the Common Stock outstanding.

Principal Stockholder

At December 31, 2003, only one person or group of persons was known by the Corporation to own beneficially more than five percent of any class of the Corporation's voting securities.

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<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common Stock	The Adams Express Company Seven St. Paul Street Baltimore, Maryland 21202	1,985,996 direct	9.1%

Board Meetings

The Board of Directors held twelve meetings during 2003, at which overall attendance was approximately 90%. Each Director attended at least 75% of the total of all (i) meetings of the Board and (ii) meetings of committees of the Board on which he or she served in 2003, except for Mr. Kelly.

Audit Committee

Messrs. Arzac, Neff, Peters, and Roberts, and Ms. McGahran, each of whom is an independent director as such is defined by the Rules of the New York Stock Exchange, and none of whom is an interested person as such is defined in the Investment Company Act of 1940, constitute the membership of the Board's standing Audit Committee, which met four times in 2003. The Board has determined that the Corporation has two audit committee financial experts, as that term is defined in federal regulations, serving on the Committee. These individuals are Mr. Arzac and Ms. McGahran. The Board has adopted a written charter under which the Audit Committee operates, which was most recently amended in January 2004. A copy of the Audit Committee Charter is attached as Exhibit A. A copy of the Audit Committee Charter is also available at the Corporation's website: www.peteres.com. Mr. Arzac serves on the audit committees of 8 funds managed by Credit Suisse Asset Management, as well as that of Adams, which funds are listed on the New York Stock Exchange. The Board has determined that such simultaneous service would not impair his ability to effectively serve on the Corporation's Audit Committee. Set forth below is the report of the Audit Committee:

Audit Committee Report

The purposes of the Committee are set forth in the Committee's written charter. As provided in the charter, the role of the Committee is to assist the Board of Directors in its oversight on matters relating to accounting, financial reporting, internal control, auditing, and regulatory compliance activities, and other matters the Board deems appropriate. The Committee also selects the Corporation's independent auditors in accordance with the provisions set out in the charter. Management, however, is responsible for the preparation, presentation and integrity of the Corporation's financial statements, and for the procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out proper audits and reviews.

In fulfilling its responsibilities, the Committee has reviewed and discussed the audited financial statements contained in the 2003 Annual Report of the Corporation with the Corporation's management and the independent auditors. In addition, the Committee has discussed with the independent auditors the matters required to be discussed pursuant to Statement of Auditing Standards No. 61, as modified or supplemented. The Committee has also received from the independent auditors the written statement regarding independence as required by Independence Standards Board Standard No. 1, considered whether the provision of nonaudit services by the independent auditors is compatible with maintaining the auditors' independence, and discussed with the auditors the auditors' independence.

In reliance on the reviews and discussions with management and the independent auditors referred to above, and subject to the limitations on the responsibilities and role of the Committee set forth in the charter and discussed above, the Committee recommended to the Board of Directors that

the audited financial statements be included in the Corporation's 2003 Annual Report, for filing with the Securities and Exchange Commission.

Respectfully submitted on February 12, 2004, by the members of the Audit Committee of the Board of Directors:

Enrique R. Arzac, Chairman

Kathleen T. McGahran

W. Perry Neff

Landon Peters

John J. Roberts

Compensation Committee

Messrs. Emerson, MacCallan, Peters, Wilson, and Ms. Schwab constitute the membership of the Board's standing Compensation Committee, which met three times during 2003. The Compensation Committee reviews and recommends changes in the salaries of directors, officers, and employees, and advises upon the compensation and stock option plans in which the executive officers, officers, and employees of the Corporation are eligible to participate.

Executive Committee

Messrs. Emerson, Kelly, Lenagh, Ober*, Roberts, Wilson, and Meses. Bonanno and Schwab constitute the membership of the Board's standing Executive Committee, which met twice during 2003. The Committee has the authority of the Board of Directors between meetings of the Board except as limited by law, the Corporation's By-laws, or Board resolution. The Executive Committee, minus Mr. Ober, also performs the duties of a nominating committee, as discussed below.

Nominating Committee

The Corporation does not have a separate standing nominating committee. Instead, certain members of the Executive Committee perform the functions of a nominating committee for the Board (hereinafter called the "Nominating Committee"). The Nominating Committee is comprised of the directors who serve on the Corporation's Executive Committee, minus Mr. Ober, who is an interested person as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940. Thus, Messrs. Emerson, Kelly, Lenagh, Roberts, and Wilson, and Meses. Bonanno and Schwab, each of whom is not an interested person of the Corporation, constitute the Nominating Committee. The Executive Committee, minus Mr. Ober, acting as the Nominating Committee, met once during 2003. In February 2004, the Board adopted a written charter under which the Nominating Committee operates, a copy of which is available to stockholders at the Corporation's website: www.peteres.com.

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The Nominating Committee will consider unsolicited recommendations for director candidates from stockholders of the Corporation. Stockholders may recommend candidates for consideration by the Nominating Committee by writing to the Secretary of the Corporation at the office of the Corporation, Seven St. Paul Street, Suite 1140, Baltimore, MD 21202, giving the candidate's name, biographical data and qualifications and stating whether the candidate would be an interested person of the

* Mr. Ober is an interested person.

Corporation. A written statement from the candidate, consenting to be named as a candidate, and if nominated and elected, to serve as a director, should accompany any such recommendation.

The process that the Nominating Committee uses for identifying and evaluating nominees for director is as follows: When there is a vacancy on the Board, either through the retirement of a director or the Board's determination that the size of the Board should be increased, nominations to fill that vacancy are traditionally made by current, independent directors on the Board. The name of any individual recommended by an independent director is provided to Mr. Ober, who contacts the prospective director nominee and meets with him or her. The members of the Nominating Committee then meet with the prospective director nominee. If a majority of the Nominating Committee members are satisfied that the prospective director nominee is qualified and will make a positive addition to the Board, as many as possible of the other independent directors meet with him or her. The Nominating Committee then nominates the candidate at a meeting of the Board and a vote is taken by the full Board on whether to elect the nominee to the Board and to include the nominee in the Corporation's proxy for election at the next Annual Meeting of stockholders. The Corporation anticipates that a similar process will be used for any qualified director candidate properly recommended by a stockholder. In 2003, two new directors were identified, evaluated, nominated and elected in this fashion. Both Ms. Bonanno and Ms. McGahran were recommended to the Nominating Committee by independent directors. The Corporation did not use a third party to recommend director candidates in 2003.

Retirement Benefits Committee

Messrs. Arzac, Kelly, Lenagh, MacCallan, and Neff are the director members of the standing Retirement Benefits Committee of the Corporation, which administers the Employees' Retirement Plan, Supplemental Retirement Plan and the Employee Thrift Plan of the Corporation. This Committee met once during 2003.

Board of Directors Compensation

During 2003, each director who is not an interested person received an annual retainer fee of \$10,000 and a fee of \$500 for each Board meeting attended. All members of each Committee, except executive officers and/or interested persons, receive an additional annual retainer fee of \$1,500 for each committee membership and a fee of \$500 for each meeting attended; the Chairman of each committee except for the Executive Committee receives an additional fee of \$500 for each Committee meeting attended. The total amount of fees paid to the independent directors in 2003 was \$215,344.

Transactions with Principal Stockholder

The Corporation shares certain expenses for research, accounting services and other office services (including proportionate salaries and other employee benefits), rent and related expenses, and miscellaneous expenses such as office supplies, postage, subscriptions and travel, with Adams, of which all the above-named nominees are also directors. These expenses were paid by Adams and, on the date the payment was made, the Corporation simultaneously paid to Adams its allocated share, based on either the proportion of the size of the investment portfolios of the two companies, or, where possible, on an actual usage basis. In 2003, the Corporation's share of such expenses was \$480,433.

Audit Fees

The aggregate fees billed for professional services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the audits of the Corporation's annual and semi-annual financial statements for 2003 and 2002 were \$46,162, and \$38,726, respectively.

Audit-Related Fees

There were no audit-related fees in 2003 and 2002.

Tax Fees

The aggregate fees billed to the Corporation for professional services rendered by PricewaterhouseCoopers LLP for the review of the Corporation's excise tax calculations and preparations of federal, state and excise tax returns for 2003 and 2002 were \$7,038, and \$6,824, respectively.

All Other Fees

The aggregate fees billed for services to the Corporation by PricewaterhouseCoopers LLP, other than for the services referenced above, for 2003 was \$0, and in 2002 was \$2,250, which related to tax research for option purchasing.

The Board's Audit Committee has considered the provision by PricewaterhouseCoopers LLP of the services covered in this **All Other Fees** section and found that they are compatible with maintaining PricewaterhouseCoopers LLP's independence.

Audit Committee Pre-Approval Policy

As of 2003, all services to be performed for the Corporation by PricewaterhouseCoopers LLP must be pre-approved by the Audit Committee. All services performed for 2003 were pre-approved by the Committee.

Remuneration of Directors and Others

The following table sets forth for each of the persons named below the aggregate current remuneration received from the Corporation during the fiscal year ended December 31, 2003, for services in all capacities:

Name of Person	Position	Aggregate Remuneration (1)(2)(3)(4)	Pension or Retirement Benefits Accrued During the Last Fiscal Year (5)	Estimated Annual Benefits upon Retirement
Douglas G. Ober	Chairman of the Board and Chief Executive Officer (A)	\$ 196,230		\$ 119,982
Joseph M. Truta	Executive Vice President	124,930		77,802
Lawrence L. Hooper, Jr.	Vice President, General Counsel & Secretary	69,626		22,356
Enrique R. Arzac	Director (B)(D)	23,000	N/A	N/A
Phyllis O. Bonanno	Director (A)	2,667	N/A	N/A
Daniel E. Emerson	Director (A)(C)	22,500	N/A	N/A
Edward J. Kelly, III	Director (A)(D)	17,500	N/A	N/A
Thomas H. Lenagh	Director (A)(D)	21,000	N/A	N/A
W. D. MacCallan	Director (C)(D)	21,500	N/A	N/A
Kathleen T. McGahran	Director (B)	2,167	N/A	N/A
W. Perry Neff	Director (B)(D)	20,500	N/A	N/A
Landon Peters	Director (B)(C)	22,500	N/A	N/A
John J. Roberts	Director (A)(B)	19,500	N/A	N/A
Susan C. Schwab	Director (A)(C)	21,000	N/A	N/A
Robert J. M. Wilson	Director (A)(C)	21,500	N/A	N/A

(A) Member of Executive Committee

(B) Member of Audit Committee

(C) Member of Compensation Committee

(D) Member of Retirement Benefits Committee

- (1) Of the amounts shown, direct salaries paid by the Corporation to Messrs. Ober, Truta, and Hooper were \$119,970, \$79,670, and \$48,050, respectively.
- (2) Of the Corporation's direct salaries, \$4,340 for Mr. Ober, \$4,340 for Mr. Truta, and \$2,883 for Mr. Hooper, were deferred compensation under the Corporation's Employee Thrift Plan. Under the Employee Thrift Plan, the Corporation also makes contributions to match the contributions made by eligible employees (see Employee Thrift Plan below). Of the amounts shown, \$7,440, \$7,440, and \$5,766 were plan contributions for Messrs. Ober, Truta, and Hooper, respectively. The non-employee Directors do not participate in the Employee Thrift Plan.
- (3) Of the amounts shown, \$68,820, \$37,820, and \$15,810 were incentive compensation accrued for Messrs. Ober, Truta, and Hooper, respectively, in 2003 and deferred until 2004.

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- (4) In addition, \$116,336 for Mr. Ober was the net gain realized upon the exercise of stock appreciation rights during 2003 granted under the Corporation's Stock Option Plan (see "Stock Option Plan" below). This sum is in addition to the aggregate remuneration amount shown in this summary table.
- (5) The Corporation has a noncontributory Employees' Retirement Plan. No contributions were made by the Corporation to this plan in 2003.

Stock Option Plan

On December 12, 1985, the Corporation's Board of Directors adopted a Stock Option Plan (the Plan), which was approved by the stockholders at the March 26, 1986 Annual Meeting of Stockholders and was amended at the March 29, 1994 and March 25, 2003 Annual Meetings of Stockholders. The Plan provides for the grant to key employees (as defined in the Plan) of options to purchase shares of Common Stock of the Corporation, together with related stock appreciation rights. As of December 31, 2003, (i) the number of shares subject to outstanding options under the Plan was 129,447 and (ii) the number of shares available for future grants under the Plan was 279,614. All options granted or to be granted under the Plan are treated as non-qualified stock options under the Internal Revenue Code. The Plan is administered by the Compensation Committee of the Board of Directors, which consists of five members of the Board, none of whom is eligible to receive grants under the Plan. The grant of options is at the discretion of the Compensation Committee.

The Plan provides that, among other things, (a) the option price per share shall not be less than the fair market value of the Common Stock at the date of grant, except that the option price per share will be reduced after grant of the option to reflect capital gains distributions to the Corporation's stockholders, provided that no such reduction shall be made that will reduce the option price below 25% of the original option price; (b) an option will not become exercisable until the optionee shall have remained in the employ of the Corporation for at least one year after the date of grant and may be exercised for 10 years unless an earlier expiration date is stated in the option; and (c) no option or stock appreciation right shall be granted after December 8, 2006.

The Plan permits the grant of stock appreciation rights in conjunction with the grant of an option, either at the time of the option grant or thereafter during its term and in respect of all or part of such option. Stock appreciation rights permit an optionee to request to receive (a) shares of Common Stock of the Corporation with a fair market value at the time of exercise equal to the amount by which the fair market value of all shares subject to the option in respect of which such stock appreciation right was granted exceeds the exercise price of such option, (b) in lieu of such shares, the fair market value thereof in cash, or (c) a combination of shares and cash. Stock appreciation rights are exercisable beginning no earlier than two years after the date of grant and extend over the period during which the related option is exercisable. To the extent a stock appreciation right is exercised in whole or in part, the option in respect of which such stock appreciation right was granted shall terminate and cease to be exercisable.

Shares of Common Stock acquired as the result of the exercise of an option or stock appreciation right may not be sold until the later of two years after the date of grant of the option or one year after the acquisition of such shares.

Employee Thrift Plan

Employees of the Corporation who have completed six months of service may elect to have 2% to 6% of their base salary deferred as a contribution to a thrift plan instead of being paid to them currently (see table set forth on page 11 regarding 2003 contributions for the officers and directors identified therein). The Corporation (subject to certain limitations) contributes for each employee out of net investment income an amount equal to 200% of each employee's contribution or to the maximum permitted by law. Employees may also contribute an additional amount of base salary to the thrift plan, but these contributions are not matched by the Corporation. All employee contributions are credited to

the employee's individual account. Employees may elect that their salary deferral and other contributions be invested in Common Stock of the Corporation, or of Adams, or several mutual funds, or a combination thereof. Fifty percent of the Corporation's matching contributions is invested in the Corporation's Common Stock, and the remaining fifty percent is invested in the same manner that the employee has elected for his or her contributions. An employee's interest in amounts derived from the Company's contributions becomes non-forfeitable upon completion of 36 months of service or upon death or retirement. Payment of amounts not withdrawn or forfeited under the thrift plan may be made upon retirement or other termination of employment in a single distribution, in ten equal installments, or in an annuity.

Employees Retirement Plan

The employees of the Corporation with one or more years of service participate in a retirement plan pursuant to which contributions are made solely by the Corporation on behalf of, and benefits are provided for, employees meeting certain age and service requirements. The plan provides for the payment of benefits in the event of an employee's retirement at age 62 or older. Upon such retirement, the amount of the retirement benefit is 2% of an employee's highest thirty-six months average of an employee's final sixty months annual salary, including incentive compensation, multiplied by years of service. Retirement benefits cannot exceed 60% of the highest thirty-six months average out of the employee's final sixty months annual salary including incentive compensation. Benefits are payable in several alternative methods, each of which must be the actuarial equivalent of a pension payable for the life of the employee only. Retirement benefits (subject to any applicable reduction) are also payable in the event of an employee's early or deferred retirement, disability, or death. Contributions are made to a trust to fund these benefits.

On March 10, 1988, the Board of Directors of the Corporation unanimously approved a supplemental retirement benefits plan (the Supplemental Plan) for employees of the Corporation. On June 11, 1998, the Supplemental Plan was amended and restated as of January 1, 1998. The purpose of the Supplemental Plan is to provide deferred compensation in excess of benefit limitations imposed by the Internal Revenue Code on tax-qualified defined benefit plans, including the retirement plan of the Corporation described above. In accordance with such limitations, the annual benefit payable under the Corporation's retirement plan may not exceed the lesser of \$165,000 for 2004 and the employee's average total compensation paid during the three highest-paid consecutive calendar years of employment. The \$165,000 limit will be adjusted by the Secretary of the Treasury to reflect cost-of-living increases.

The Supplemental Plan authorizes the Corporation to pay annual retirement benefits to beneficiaries in an amount equal to the difference between the maximum benefits payable under the retirement plan described above and the benefits that would otherwise be payable but for the Internal Revenue Code's limitations on annual retirement benefits. All amounts payable under the Supplemental Plan will be paid from the general funds of the Corporation as benefits become due. The Corporation has established a funding vehicle using life insurance policies owned by the Corporation for the Supplemental Plan. Payment of benefits under the Supplemental Plan will be made concurrently with and in the same form as payment of benefits under the Corporation's retirement plan. During 2003, the Corporation made payments of \$38,873 under the Supplemental Plan.

Brokerage Commissions

During the past fiscal year, the Corporation paid brokerage commissions in the amount of \$180,266 on the purchase and sale of portfolio securities traded on the New York Stock Exchange and the American Stock Exchange, substantially all of which were paid to brokers providing research and other investment services to the Corporation. The Corporation paid brokerage commissions of \$19,575 on options written or purchased by the Corporation. The average per share commission rate paid by the Corporation was \$0.0482. No commissions were paid to an affiliated broker.

Portfolio Turnover

The portfolio turnover rate (purchases or sales, whichever is lower, as a percentage of weighted average portfolio value) for the past three years has been as follows:

<u>2003</u>	<u>2002</u>	<u>2001</u>
10.20%	9.69%	6.74%

Expense Ratio

The ratio of expenses to the average net assets of the Corporation for the past three years has been as follows:

<u>2003</u>	<u>2002</u>	<u>2001</u>
0.74%	0.49%	0.35%

(2) RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Investment Company Act of 1940, as amended (the Act), requires, in effect, that the Corporation's independent auditors be selected by the Audit Committee, whose selection thereof is ratified by a majority of those members of the Board of Directors who are not interested persons (as defined by the Act) of the Corporation; that such selection may be submitted for ratification or rejection at the annual meeting of stockholders; and that the employment of such independent auditors be conditioned on the right of the Corporation, by vote of the holders of a majority of its outstanding voting securities, to terminate such employment at any time without penalty. In accordance with such provisions, PricewaterhouseCoopers LLP, 250 W. Pratt Street, Baltimore, Maryland, independent auditors, which firm was the Corporation's principal auditor during the year 2003, has been selected as independent auditors of the Corporation to audit the books and accounts of the Corporation for or during the year ending December 31, 2004, by the Audit Committee, which selection has been ratified by a majority of those members of the Board of Directors who were not interested persons of the Corporation, voting in person, and their selection is submitted to the stockholders for ratification by the affirmative vote of a majority of all votes cast at the meeting. Representatives of PricewaterhouseCoopers LLP are expected to be present at the meeting to make a statement if they desire to do so and to respond to appropriate questions. The Corporation has

been informed that PricewaterhouseCoopers LLP does not have any direct financial or any material indirect financial interest in the Corporation.

The Board of Directors unanimously recommends ratification of the selection of PricewaterhouseCoopers LLP.

(3) OTHER MATTERS AND ANNUAL REPORT

As of the date of this proxy statement, management knows of no other business that will come before the meeting. Should other business be properly brought up, it is intended that proxies in the accompanying form will be voted thereon in accordance with the judgment of the person or persons voting such proxies.

The Annual Report of the Corporation for the year ended December 31, 2003, including financial statements, is being mailed with this Proxy Statement to all stockholders entitled to notice of and to vote at the annual meeting to be held on March 30, 2004. A copy of the Corporation's Annual Report will be furnished to stockholders, without charge, upon request. You may request a copy by telephoning Lawrence L. Hooper, Jr., Vice President, General Counsel and Secretary, at (800) 638-2479 or by sending Mr. Hooper an e-mail message at contact@peteres.com.

The Corporation has retained The Altman Group Inc. (Altman) to assist in the solicitation of proxies. The Corporation will pay Altman a fee for its services not to exceed \$3,000 and will reimburse Altman for its expenses, which the Corporation estimates will not exceed \$1,500.

Stockholder Proposals or Nominations for 2005 Annual Meeting

Stockholder proposals for inclusion in the proxy statement and form of proxy relating to the 2005 Annual Meeting must be received at the office of the Corporation, Seven St. Paul Street, Baltimore, MD 21202, no later than October 23, 2004.

In addition, for stockholder proposals or director nominations that a stockholder seeks to bring before the 2005 Annual Meeting but does not seek to have included in the Corporation's proxy statement and form of proxy for that meeting, the following requirements apply. Pursuant to the Corporation's By-laws, in order for stockholder proposals or nominations of persons for election to the Board of Directors to be properly brought before the 2005 Annual Meeting, any such stockholder proposal or nomination (including in the case of a nomination, the information required by the Corporation's advance notice By-laws provisions) must be received at the office of the Corporation no earlier than December 29, 2004 and no later than January 28, 2005. The Corporation advance notice By-law requirements are separate from, and in addition to, the Securities and Exchange Commission's requirements (including the timing requirements described in the preceding paragraph) that a stockholder must meet in order to have a stockholder proposal included in the proxy statement. Should the Corporation determine to allow a stockholder proposal that is received by the Corporation after January 28, 2005 to be presented at the 2005 Annual Meeting nevertheless, the persons named as proxies in the accompanying form will have discretionary voting authority with respect to such stockholder proposal.

PETROLEUM & RESOURCES CORPORATION

AUDIT COMMITTEE CHARTER

- I. Composition of the Audit Committee: The Audit Committee shall be comprised of at least three directors appointed by the Board of Directors. No member of the Audit Committee shall be an interested person of the Corporation, as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, nor shall have any relationship to the Corporation that may interfere with the exercise of their independence from management and the Corporation, and each member shall otherwise satisfy the applicable membership requirements under the rules of the New York Stock Exchange, Inc., as such requirements are interpreted by the Board of Directors in its business judgment. If an Audit Committee member simultaneously serves on the audit committees of more than three public companies, the Board of Directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee and this determination will be disclosed in the annual meeting proxy statement.

- II. Purposes of the Audit Committee: The purposes of the Audit Committee are to assist the Board of Directors:
 1. in its oversight of the Corporation's accounting and financial reporting principles and policies and internal audit controls and procedures;

 2. in its oversight of the Corporation's financial statements and the integrity and independent audit thereof;

 3. in its oversight of the Corporation's compliance with legal and regulatory requirements; and

 4. in evaluating the qualifications and independence of the outside auditors.

The function of the Audit Committee is oversight. The management of the Corporation is responsible for the preparation, presentation and integrity of the Corporation's financial statements. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The outside auditors are responsible for planning and carrying out a proper audit and reviews, including reviews of the Corporation's quarterly financial statements prior to the filing of each quarterly report, and other procedures. In fulfilling their responsibilities hereunder, it is recognized that members of the Audit Committee are not full-time employees of the Corporation and are not, and do not represent themselves to be actively engaged in the practice of auditing or accounting, or experts in the fields of accounting or auditing, notwithstanding that one or more of the members of the Audit Committee may be determined by the Board of Directors to be audit committee financial experts as such term is defined in applicable federal statutes and regulations, with all of the disclaimers concerning such determination that are contained in said federal statutes and regulations. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures, and each member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Corporation from which it receives information and (ii) the accuracy of the

financial and other information provided to the Audit Committee by such persons or organizations absent actual knowledge to the contrary.

The outside auditors for the Corporation are ultimately accountable to the Board of Directors and the Audit Committee. The outside auditors shall submit to the Corporation annually a formal written statement delineating all relationships between the outside auditors and the Corporation (Statement as to Independence), addressing at least the matters set forth in Independence Standards Board Standard No. 1.

III. Meetings of the Audit Committee: The Audit Committee shall meet at least four times annually, or more frequently if circumstances dictate, to discuss with management the annual and semi-annual audited financial statements and quarterly financial statements and quarterly financial results. The Audit Committee should meet separately at least annually with management and with the outside auditors to discuss any matters that the Audit Committee or any of these persons or firms believe should be discussed privately. The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or outside auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

IV. Duties and Powers of the Audit Committee: To carry out its purposes, the Audit Committee shall have the following duties and powers:

1. with respect to the outside auditor:

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 assets 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, 2005 and December 31, 2004, the subsidiary bank had potential problem loans of \$3,592,717 and \$1,456,261, respectively.

	Consolidated Allowance For Loan			
	2005	Years Ended December 31,		2002
	----	2004	2003	----
		(Dollars in thousands)		
Average loans outstanding.....	\$189,187	\$140,052	\$112,468	\$100,000
Loans outstanding at period end.....	\$200,310	\$164,374	\$115,242	\$100,000
Total nonperforming loans.....	283	361	197	197
Beginning balance of allowance.....	1,659	1,166	1,228	1,228
Loans charged-off.....	(303)	(291)	(603)	(603)
Total loans charged-off.....	(303)	(291)	(603)	(603)
Total recoveries.....	90	112	73	73

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Net loans charged-off.....	(213)	(179)	(530)
Provision for loan losses.....	921	672	468
BALANCE AT PERIOD END.....	\$ 2,367	\$ 1,659	\$ 1,166
Net charge-offs to average loans.....	.11%	.13%	.47%
Allowance as percent of total loans.....	1.18%	1.01%	1.01%
Nonperforming loans as a percentage of total loans	.14%	.22%	.17%
Allowance as a multiple of nonperforming loans...	8.4X	4.6X	5.9X

At December 31, 2005, the components of the allowance for loan losses consisted of the following:

	<u>Allowance</u> (In thousands)
Allocated:	
Impaired loans	\$ 90
Graded loans	1,774
Unallocated	503

	\$ 2,367
	=====

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

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 by \$281,000 or 14.3% from \$1,963,000 for the year ended December 31, 2004, to \$1,682,000 for the year ended December 31, 2005. The activity fees were \$1,130,000 for 2005 compared to \$1,413,000 for 2004.

Noninterest expense increased from \$7.2 million for the year ended December 31, 2004 to \$8.1 million for the year ended December 31, 2005. The Company experienced increases in most expense categories, which reflects the continued growth of the Company. The largest increase was in salary and employee benefits, which increased by \$731,000 in 2005 as compared to 2004. This increase included normal merit increases in salaries as well as the employment of additional employees throughout 2005.

The following table sets forth the primary components of noninterest expense for the per

Noninterest Expense

	<u>Years ended December</u>	
	<u>2005</u>	<u>2004</u>
	-----	-----
	(In thousands)	
Salaries and employee benefits.....	\$4,816	\$4,085
Occupancy.....	585	531
Equipment.....	768	690

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Marketing and public relations.....	207	176
Data processing.....	150	153
Supplies and printing.....	194	170
Telephone.....	66	73
Correspondent services.....	72	115
Deposit and other insurance.....	149	161
Professional and consulting fees.....	287	298
Postage.....	108	102
ATM fees.....	77	109
Other.....	659	565
	-----	-----
Total.....	\$8,138	\$7,228
	=====	=====

Income Tax Expense

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

Analysis of Financial Condition

Earning Assets

Loans. Loans typically provide higher yields than the other types of earning assets, and thus one of the Company's goals is for loans to be the largest category of the Company's earning assets. At December 31, 2005 and 2004, respectively, loans accounted for 75% and 85% of earning assets. Management attempts to control and counterbalance the inherent credit and liquidity risks associated with the higher loan yields without sacrificing asset quality to achieve its asset mix goals. Loans averaged \$189.2 million during 2005, as compared to \$140.1 million during 2004, and \$112.5 million during 2003, reflecting the substantial growth of the Company during the period.

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

	Composition of Loan Portfolio			
	December 31,			
	2005		2004	
	Amount	Percent of Total	Amount	Percent of Total
	-----	-----	-----	-----
	(Dollars in thousands)			
Mortgage loans held for sale.....	\$ 3,319	1.7%	\$ 3,073	
Commercial, financial and agricultural	30,576	15.3%	23,248	1
Real Estate:				
Mortgage-commercial.....	48,335	24.1%	36,695	2
Mortgage-residential.....	68,148	34.0%	61,869	3
Construction.....	37,660	18.8%	28,842	1
Consumer and other.....	12,271	6.1%	10,648	
	-----	-----	-----	-----

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Total loans.....	200,309	100.0%	164,375	10
		=====		=====
Allowance for loan losses.....	(2,367)		(1,659)	
	-----		-----	
Net loans.....	\$197,942		\$162,716	
	=====		=====	

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%. Due to the short term the loan portfolio has existed, the current portfolio may not be indicative of the ongoing portfolio mix. 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 to sell the loans are obtained upon origination.

The following table sets forth the Company's commercial and construction real estate loans maturing within specified intervals at December 31, 2005.

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Loan Maturity Schedule and Sensitivity to Changes in Interest Rates

Type	December 31, 2005		
	One Year or Less	Over One Year Through Five Years	Over Five Years
		(Dollars in thousands)	
Commercial, financial and agricultural..	\$15,781	\$12,069	\$2,726
Real estate - construction.....	37,660	-	-
	-----	-----	-----
	\$53,441	\$12,069	\$2,726
	=====	=====	=====
Loans maturing after one year with:			
Fixed interest rates.....			
Floating interest rates.....			

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 \$31.0 million in 2005, as compared to \$24.7 million in 2004 and \$25.1 million in 2003. This represents 13.4%, 14.7%, and 17.5% of the average earning assets for the years ended December 31, 2005, 2004, and 2003, respectively. At December 31, 2005, investment securities were \$50.7 million and represented 18.9% 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 continues to grow its loan portfolio. The Company primarily invests in securities of U.S. Government agencies, municipalities, and corporate obligations with maturities up to five years.

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

Securities Portfolio			
December 31,			
	2005	2004	2003
(In thousands)			
Available-for-sale			
U.S. Government agencies.....	\$39,904	\$16,565	\$18,297
States and municipal subdivisions.....	5,879	7,280	4,893
Corporate obligations.....	2,760	2,506	3,608
Mutual finds	-	-	2,980
Total available-for-sale.....	48,543	26,351	29,778
Held-to-maturity			
U.S. Government agencies.....	14	14	15
Total.....	\$48,557	\$26,365	\$29,793

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The following table shows, at carrying value, the scheduled maturities and average yield December 31, 2005.

Investment Securities Maturity Distribution and Yields (1)

December 31, 2005						
	Within One Year		After One But Within Five Years		After Five But Within Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield
Held-to-maturity:						
U.S. Government agencies (2).	\$ -	-	\$ -	-	\$ -	-
Available-for-sale:						
U.S. Government agencies (3)..	\$10,206	3.77%	\$ 18,549	4.75%	\$ 3,041	5.0%
States and municipal subdivisions.....	1,290	2.84%	3,047	3.19%	495	4.84%
Corporate obligations.....	-	-	-	-	-	-
Total investment securities available-for-Sale.....	\$11,496		\$ 21,596		\$ 3,536	

- (1) Investments with a call feature are shown as of the contractual maturity date.
(2) Excludes mortgage-backed securities with a yield of 5.4%.
(3) Excludes mortgage-backed securities totaling \$8.1 million with a yield of 4.58%.

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Short-Term Investments. Short-term investments, consisting of Federal Funds sold, averaged \$10.6 million in 2005, \$2.9 million in 2004, and \$4.9 million in 2003. At December 31, 2005, and December 31, 2004, short-term investments totaled \$15,785,000 and \$919,000, 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 interest-bearing deposits increased \$52.7 million or 49.4% in 2004. Average total deposits increased \$63.6 million, or 47.2% in 2005. At December 31, 2005, total deposits were \$241.9 million, compared to \$156.8 million a year earlier, an increase of 54.3%.

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

	Deposits				
	December 31,				
	2005		2004		2003
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount
(Dollars in thousands)					
Noninterest-bearing accounts.....	\$49,585	20.5%	\$ 30,365	19.4%	\$ 19,995
NOW accounts.....	29,160	12.0	26,100	16.6	17,340
Money market accounts.....	33,122	13.7	28,757	18.3	18,103
Savings accounts.....	17,786	7.4	7,129	4.6	3,457
Time deposits less than \$100,000...	61,907	25.6	34,710	22.1	35,245
Time deposits of \$100,000 or over.	50,389	20.8	29,769	19.0	27,558
Total deposits.....	\$241,949	100.0%	\$156,830	100.0%	\$121,698

The Company's loan-to-deposit ratio was 81.4% at December 31, 2005, 102.9% at December 31, 2004, and 93.4% at December 31, 2003. The loan-to-deposit ratio averaged 92.0% during 2005. 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 \$191.6 million at December 31, 2005, \$127.1 million at December 31, 2004, and \$94.1 million at December 31, 2003. 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, 2005, 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			
	Within Three Months	After Three Through Twelve Months	After Twelve Months	Total
	(In thousands)			
December 31, 2005.....	\$5,790	\$30,597	\$14,002	\$50,389

Borrowed Funds

Borrowed funds consist primarily of advances from the Federal Home Loan Bank of Dallas and federal funds purchased. At December 31, 2005, advances from the FHLB totaled \$25.5 million compared to \$30.6 million at December 31, 2004. 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. No federal funds purchased were outstanding at December 31, 2005 or December 31, 2004.

Subordinated Debentures

In 2002, the Company issued subordinated debentures of \$7,217,000 to The First Bancshares Statutory Trust I (the Trust). The Company is the sole owner of the equity of the Trust. The Trust issued \$7,000,000 of preferred securities to investors. The Company makes interest payments and will make principal payments on the debentures to the Trust. These payments will be the source of funds used to retire the preferred securities, which are redeemable at any time beginning in 2007 and mature in 2032. The Company entered into this arrangement to provide funding for expected growth.

Capital

Total shareholders' equity as of December 31, 2005, was \$18.5 million, an increase of \$1.8 million or approximately 10.4%, compared with shareholders' equity of \$16.7 million as of December 31, 2004.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common shareholders' equity, excluding the unrealized gain (loss) on available-for-sale securities, minus certain intangible assets. Tier 2 capital consists of the general reserve for loan losses subject to certain limitations. An institution's total risk-based capital for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The risk-based regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital.

Bank holding companies and banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 3%. All but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. The Company and the subsidiary bank exceeded their minimum regulatory capital ratios as of December 31, 2005 and 2004.

Analysis of Capital

Capital Ratios	Regulatory Minimums		The Company December 31,		The First December 31	
	Adequately Capitalized	Well Capitalized	2005	2004	2005	2004
Leverage.....	4.0%	5.0%	8.0%	10.8%	7.8%	10.0%
Risk-based capital:						
Tier 1.....	4.0%	6.0%	12.0%	13.7%	10.8%	11.9%
Total.....	8.0%	10.0%	12.4%	14.6%	11.9%	13.9%

Ratios

	2005	2004
Return on assets (net income divided by average total assets)	.75%	.67%

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Return on equity (net income divided by average equity)	11.0%	7.7%
Dividend payout ratio (dividends per share divided by net income per share)	12.3%	14.2%
Equity to asset ratio (average equity divided by average total assets)	6.8%	8.7%

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.

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The Company's Federal Funds sold position, which is typically its primary source of liquidity, averaged \$10.6 million during the year ended December 31, 2005 and totaled \$15,785,000 at December 31, 2005. 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, 2005, advances available totaled approximately \$70.7 million of which \$25.5 million had been drawn.

During 2002, the Company obtained \$7,000,000 through the issuance of subordinated debentures to a wholly-owned statutory trust, The First Bancshares Statutory Trust I. The Trust issued floating rate preferred securities into the market. The preferred securities are redeemable at any time beginning in 2007 and have a stated maturity of 2032. Payments of the preferred securities are dependent upon the Company's ability to make principal and interest payments due on the debentures.

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.

Accounting Matters

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

Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as the Company are primarily monetary in nature. Therefore, interest rates have a more significant effect on the Company's performance than do the effects of changes in the general rate of inflation and change in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, management seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

QUARTERLY AND YEAR-TO-DATE ANALYSIS

The First reported total assets of \$327.8 million at June 30, 2006, compared to \$292.8 million at December 31, 2005. Loans increased \$40.3 million, or 20.1%, during the first six months of 2006. Deposits at June 30, 2006, totaled \$269.6 million compared to \$243.8 million at December 31, 2005. For the six month period ended June 30, 2006, The First reported net income of \$1.77 million compared to \$998 thousand for the six months ended June 30, 2005.

NONPERFORMING ASSETS AND RISK ELEMENTS. Diversification within the loan portfolio is an important means of reducing inherent lending risks. At June 30, 2006, The First had no concentrations of ten percent or more of total loans in any single industry nor any geographical area outside their immediate market areas.

At June 30, 2006, The First had loans past due as follows:

	(\$ In \$
Past due 30 through 89 days	\$
Past due 90 days or more and still accruing	\$

The accrual of interest is discontinued on loans which become ninety days past due (principal and/or interest), unless the loans are adequately secured and in the process of collection. Nonaccrual loans totaled \$54,000 at June 30, 2006. Any other real estate owned is carried at fair value, determined by an appraisal. Other real estate owned totaled \$269,000 at June 30, 2006. A loan is classified as a restructured loan when the interest rate is materially reduced or the term is extended beyond the original maturity date because of the inability of the borrower to service the debt under the original terms. The First had no restructured loans at June 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is considered adequate with cash and cash equivalents of \$14.1 million as of June 30, 2006. In addition, loans and investment securities repricing or maturing within one year or less exceeded \$143.6 million at June 30, 2006. Approximately \$46.0 million in loan commitments are expected to be funded within the next six months and other commitments, primarily standby letters of credit, totaled \$1.4 million at June 30, 2006.

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

Total consolidated equity capital at June 30, 2006, is \$19.5 million, or approximately 5.9% of total assets. The First currently has adequate capital positions to meet the minimum capital requirements for all regulatory agencies. The capital ratios as of June 30, 2006, are as follows:

Tier 1 leverage	8.
Tier 1 risk-based	10.
Total risk-based	13.

On March 26, 2002, The First Bancshares Statutory Trust 1 (the Trust), a wholly-owned subsidiary trust of the Company, issued \$7,000,000 of redeemable cumulative trust preferred securities. The Trust used the funds to acquire floating rate subordinated debentures from the Company. The debentures bear an interest rate of the 3-month LIBOR plus 3.60%. The debentures have a maturity of 30 years but are callable 5 years after issuance. On June 30, 2006, The First Bancshares Statutory Trust 2 (the Trust 2), a wholly-owned subsidiary trust of the Company, issued \$4,000,000 of redeemable cumulative trust preferred securities. The Trust 2 used the funds to acquire floating rate subordinated debentures from the Company. The debentures bear an interest rate of the 3-month LIBOR plus 1.65%. The debentures have a maturity of 30 years but are callable 5 years after issuance. Presently, the trust preferred securities qualify as Tier 1 capital up to 25% of other components of Tier 1 capital. The Federal Reserve Board has issued a proposed rule that would retain trust preferred securities in Tier 1 capital but with stricter quantitative limits and clearer qualitative standards. In accordance with FIN 46, Consolidation of Variable Interest Entities the statutory trust is not included in the consolidated financial statements. Instead the subordinated debentures due to the statutory trust are included in the consolidated liabilities of the Company.

RESULTS OF OPERATIONS QUARTERLY

The Company had a consolidated net income of \$988,000 for the three months ending June 30, 2006, compared with consolidated net income of \$494,000 for the same period last year.

Net interest income increased to \$3,534,000 from \$2,444,000 for the three months ending June 30, 2006, or an increase of 44.6% as compared to the same period in 2005. Earning assets through June 30, 2006, increased \$15.8 million and interest-bearing liabilities also increased \$19.1 million when compared to March 31, 2006, reflecting increases of 5.5% and 8.1%, respectively.

Noninterest income for the three months ending June 30, 2006, was \$676,000 compared to \$433,000 for the same period in 2005, reflecting an increase of \$243 or 56.1%. For the three months ending June 30, 2006, the Company reported a gain of \$224,000 related to the sale of property. Included in noninterest income is service charges on deposit accounts, which for the three months ended June 30, 2006, totaled \$320,000, compared to \$351,000 for the same period in 2005.

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The provision for loan losses was \$209,000 for the three months in 2006 compared with \$233,000 for the same period in 2005.

Non interest expense increased by \$762,000 or 40.1% for the three months ended June 30, 2006, when compared with the same period in 2005. The increase is primarily due to the continued growth and the related services being offered.

RESULTS OF OPERATIONS YEAR TO DATE

The Company had a consolidated net income of \$1,748,000 for the six months ending June 30, 2006, compared with consolidated net income of \$859,000 for the same period last year.

Net interest income increased to \$6,576,000 from \$4,673,000 for the first six months ending June 30, 2006, or an increase of 40.7% as compared to the same period in 2005. Earning assets through June 30, 2006, increased \$72.9 million and interest-bearing liabilities also increased \$57.5 million when compared to June 30, 2005, reflecting increases of 31.4% and 29.4%, respectively.

Noninterest income for the six months ending June 30, 2006, was \$1,123,000 compared to \$892,000 for the same period in 2005, reflecting an increase of \$231,000 or 25.9%. For the six months ending June 30, 2006, the company reported a gain of \$224,000 related to the sale of property. Included in noninterest income is service charges on deposit accounts, which for the six months ended June 30, 2006, totaled \$592,000, compared to \$669,000 for the same period in 2005.

The provision for loan losses was \$294,000 in the first six months of 2006 compared with \$437,000 for the same period in 2005. The allowance for loan losses of \$2.6 million at June 30, 2006 (approximately 1.09% of loans) is considered by management to be adequate to cover losses inherent in the loan portfolio. The level of this allowance is dependent upon a number of factors, including the total amount of past due loans, general economic conditions, and management's assessment of potential losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant change. Ultimately, losses may vary from current estimates and future additions to the allowance may be necessary. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required. Management evaluates the adequacy of the allowance for loan losses quarterly and makes provisions for loan losses based on this evaluation.

Noninterest expenses increased by \$1,132,000 or 29.5% for the six months ended June 30, 2006, when compared with the same period in 2005. The increase is primarily due to the continued growth and the related services being offered.

BUSINESS

General

The First Bancshares, Inc. (the Company) was incorporated on June 23, 1995 to serve as a holding company for The First National Bank of South Mississippi (The First) located in Hattiesburg, Mississippi and The First National Bank of the Pine Belt (Pine Belt), located in Laurel, Mississippi (collectively, the Banks). The First began operations on August 5, 1996 from its main office in the Oak Grove community, which was on the outskirts of Hattiesburg but now is included in the city of Hattiesburg. Pine Belt began banking operations on January 19, 1999. In January, 2004, the two banks were consolidated to form one bank, The First, A National Banking Association. In addition to the main office in Hattiesburg and the branch in Laurel, The First also operates two other branches in Hattiesburg, one in Purvis, one in Picayune, and one in Pascagoula, Mississippi. The First recently received approval from the Office of the Comptroller of the Currency to open a branch in Bay St. Louis, MS. The Company and its subsidiary bank engage in a general commercial and retail banking business characterized by personalized service and local decision-making, emphasizing the banking needs of small to medium-sized businesses, professional concerns and individuals. The First is a wholly-owned subsidiary bank of the Company.

Location and Service Area

The First serves the cities of Hattiesburg, Laurel, Purvis, Picayune, Pascagoula, Bay St. Louis, and the surrounding areas of Lamar, Forrest, Jones, Pearl River, Jackson and Hancock Counties, Mississippi. The First has a main office located in the city of Hattiesburg, Mississippi, in Lamar County. The First has a branch office located on Highway 589 in the city of Purvis, Mississippi, also in Lamar County, a third office located at the intersection of Lincoln Road and South 28th Avenue in Hattiesburg, a fourth location at 3318 Hardy Street in Hattiesburg, a fifth location at Hwy 15 North in Laurel, a sixth location at Hwy 43 South in Picayune, a seventh location at Jackson Avenue in Pascagoula, Mississippi, and an eighth location at Highway 90 in Bay St. Louis, Mississippi.

The main office primarily serves the area in and around the northern portion of Lamar County. The Purvis office primarily serves the area in and around Purvis, Mississippi, which is in the east central part of Lamar County and is the county seat. Lamar County is located in the southeastern section of Mississippi. Hattiesburg, one of the largest cities in Mississippi, is located in Forrest and Lamar Counties. The Laurel office serves the city of Laurel and the surrounding area of Jones County, Mississippi. The Picayune office primarily serves the area in and around Picayune, Mississippi, including areas of north Hancock County and Pearl River, LA and Slidell, LA. Picayune is located in the southern part of Pearl River County. Pearl River County is located in the southern section of Mississippi. The Pascagoula office primarily serves the area in and around Pascagoula, Mississippi, including areas of Jackson County. Hattiesburg can be reached via U.S. Highways 98 and 49 and Interstate 59. Major employers located in the Lamar and Forrest County areas include Forrest General Hospital, the University of Southern Mississippi, Wesley Medical Center, Camp Shelby, the Hattiesburg Public Schools, the Hattiesburg Clinic, the City of Hattiesburg, and Marshall Durbin Poultry. The principal components of the economy of the Lamar and Forrest County areas include service industries, wholesale and retail trade, manufacturing, and transportation and public utilities. The Laurel branch is located at 1945 Highway 15 North, Laurel, MS, with the majority of its retail business coming from the local area and the remaining business coming from other areas of Jones County, as well as portions of Jasper County, Wayne County, Smith County, and Covington County. Major employers in the Jones County area include Howard Industries, Sanderson Farms, Inc., and South Central Regional Medical Center. Major employers in the Pearl River County area include Stennis Space Center, Chevron, Texaco, Arizona Chemical, American Crescent Elevator Co., City of Picayune, Crosby Memorial Hospital and the public schools. The principal components of the economy of the Pearl River County area include timber, service industries, wholesale and retail trade, manufacturing, and transportation and public utilities. Major employers in the Jackson County area include Northrop Grumman, Singing River Hospital, and Shell Oil Company. The Bay St. Louis office primarily serves the area in and around Bay St. Louis, MS, including Diamondhead and Kiln, also in Hancock County. Bay St. Louis can be reached via Highway 90. Major employers located in the area include Hollywood Casino, Hancock Medical Center, Stennis Space Center, GE Plastics, Dupont, Wellman, Calgon, City of Bay St. Louis, City of Waveland, Hancock County, and Hancock County School District. The principal components of the economy of the Hancock County area include tourism/gaming, manufacturing and shipping.

Banking Services

The Company strives to provide its customers with the breadth of products and services comparable to those offered by large regional banks, while maintaining the quick response and personal service of a locally owned and managed bank. In addition to offering a full range of deposit services and commercial and personal loans, The First offers products such as mortgage loan originations. The following is a description of the products and services offered or planned to be offered by the Bank.

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

 - ! *Loan Products.* The Bank offers a full range of commercial and personal loans. Commercial secured and unsecured loans for working capital (including loans secured by inventory and business expansion (including acquisition of real estate and improvements), and purchase of machinery. Consumer loans include equity lines of credit and secured and unsecured loans for home improvements, education, and personal investments. The Bank also makes real estate acquisition loans. The Bank's lending activities are subject to a variety of lending limitations by law. While differing limits apply in certain circumstances based on the type of loan or borrower (including the borrower's relationship to the bank), in general the Bank is subject to a lending limit of an amount equal to 15% of the Bank's unimpaired capital and surplus. The Bank may not make a loan to a director, executive officer, or 10% shareholder unless the loan is approved by the Board and is made on terms not more favorable to such a person than would be available to a person from the Bank.

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

 - ! *Other Services.* Other bank services include on-line Internet banking services, voice remote deposit service, commercial sweep accounts, cash management services, safe deposit boxes, travel services, payroll and social security checks, and automatic drafts for various accounts. The Bank is a member of the Money Belt, Gulfnet, and Plus networks of automated teller machines that may be used by customers throughout Mississippi and other regions. The Banks also offer VISA and MasterCard credit cards and correspondent bank services.

Competition

The Bank generally competes with other financial institutions through the selection of banking products and services offered, the pricing of services, the level of service provided, the convenience and availability of services, and the degree of expertise and the personal manner in which services are offered. Mississippi law permits statewide branching by banks and savings institutions, and many financial institutions in the state have branch networks. Consequently, commercial banking in Mississippi is highly competitive. Many large banking organizations currently operate in the Company's market area, several of which are controlled by out-of-state ownership. In addition, competition between commercial banks and thrift institutions (savings institutions and credit unions) has been intensified significantly by the elimination of many previous distinctions between the various types of financial institutions and the expanded powers and increased activity of thrift institutions in areas of banking which previously had been the sole domain of commercial banks. Recent legislation, together with other regulatory changes by the primary regulators of the various financial institutions, has resulted in the almost total elimination of practical distinctions between a commercial bank and a thrift institution. Consequently, competition among financial institutions of all types is largely unlimited with respect to legal ability and authority to provide most financial services.

The Company faces increased competition from both federally-chartered and state-chartered financial and thrift institutions, as well as credit unions, consumer finance companies, insurance companies, and other institutions in the Company's market area. Some of these competitors are not subject to the same degree of regulation and restriction imposed upon the Company. Many of these competitors also have broader geographic markets and substantially greater resources and lending limits than the Company and offer certain services such as trust banking that the Company does not currently provide. In addition, many of these competitors have numerous branch offices located throughout the extended market areas of the Company that may provide these competitors with an advantage in geographic convenience that the Company does not have at present.

Currently there are numerous other commercial banks, savings institutions, and credit unions operating in The First's primary service area.

Employees

As of June 30, 2006, the Company had 109 full-time employees and 15 part-time employees.

SUPERVISION AND REGULATION

The following summaries of statutes and regulations affecting banks do not purport to be complete and are qualified in their entirety by reference to the statutes and regulations described.

The Company and its bank are subject to state and federal banking laws and regulations which impose specific requirements or restrictions on and provide for general regulatory oversight with respect to virtually all aspects of operations. These laws and regulations are generally intended to protect depositors, not shareholders. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company. Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and following with Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), numerous additional regulatory requirements have been placed on the banking industry in the past several years, and additional changes have been proposed. The operations of the Company and the Bank may be affected by legislative changes and the policies of various regulatory authorities. The Company is unable to predict the nature or the extent of the effect on its business and earnings that fiscal or monetary policies, economic control, or new federal or state legislation may have in the future.

The Company

Because it owns the outstanding capital stock of the Bank, the Company is a bank holding company within the meaning of the Federal Bank Holding Company Act of 1956 (the BHCA).

The BHCA. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve and is required to file periodic reports of its operations and such additional information as the Federal Reserve may require. The Company's and the Bank's activities are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Investments, Control, and Activities. With certain limited exceptions, the BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring substantially all the assets of any bank, (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or (iii) merging or consolidating with another bank holding company.

In addition, and subject to certain exceptions, the BHCA and the Change in Bank Control Act, together with regulations thereunder, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring control of a bank holding company, such as the Company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more but less than 25% of any class of voting securities and either the Company has registered securities under Section 12 of the Exchange Act (which the Company has done) or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenge of the rebuttable control presumption.

Under the BHCA, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in nonbanking activities, unless the Federal Reserve Board, by order or regulation, has found those activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve Board has determined by regulation to be proper incidents to the business of a bank holding company include making or servicing loans and certain types of leases, engaging in certain insurance and discount brokerage activities, performing certain data processing services, acting in certain circumstances as a fiduciary or investment or financial adviser, owning savings associations, and making investments

in certain corporations or projects designed primarily to promote community welfare.

The Federal Reserve Board has imposed certain capital requirements on the Company under the BHCA, including a minimum leverage ratio and a minimum ratio of qualifying capital to risk-weighted assets. These requirements are described below under Capital Regulations. Subject to its capital requirements and certain other restrictions, the Company may borrow money to make a capital contribution to the Banks, and such loans may be repaid from dividends paid from the Bank to the Company (although the ability of the Bank to pay dividends is subject to regulatory restrictions as described below in The Bank Dividends). The Company is also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

Source of Strength; Cross-Guarantee. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Company might not otherwise do so. Under the BHCA, the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

The Bank

The Bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of Comptroller of the Currency (OCC). Deposits in the Bank are insured by the FDIC up to a maximum amount (generally \$100,000 per depositor, subject to aggregation rules). The OCC and the FDIC regulate or monitor virtually all areas of the Bank's operations, including security devices and procedures, adequacy of capitalization and loan loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC requires the Bank to maintain certain capital ratios and imposes limitations on the Bank's aggregate investment in real estate, bank premises, and furniture and fixtures. The Bank is required by the OCC to prepare quarterly reports on their financial condition and to conduct an annual audit of their financial affairs in compliance with minimum standards and procedures prescribed by the OCC.

Under FDICIA, all insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC and the appropriate agency (and state supervisor when applicable). FDICIA also directs the FDIC to develop with other appropriate agencies a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition, or any other report of any insured depository institution. FDICIA also requires the federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to: (i) internal controls, information systems, and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; and (v) asset quality.

National banks and their holding companies which have been chartered or registered or undergone a change in control within the past two years or which have been deemed by the OCC or the Federal Reserve Board, respectively, to be troubled institutions must give the OCC or the Federal Reserve Board, respectively, thirty days prior notice of the appointment of any senior executive officer or director. Within the thirty day period, the OCC or the Federal Reserve Board, as the case may be, may approve or disapprove any such appointment.

Deposit Insurance. The FDIC establishes rates for the payment of premiums by federally insured banks and thrifts for deposit insurance. A separate Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) are maintained for commercial banks and thrifts, respectively, with insurance premiums from the industry used to offset losses from insurance payouts when banks and thrifts fail. Since 1993, insured depository institutions like the Bank have paid for deposit insurance under a risk-based premium system.

Transactions With Affiliates and Insiders. The Bank is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of loans to, and certain other transactions with, affiliates, as well as on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of the Bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements.

The Bank is also subject to Section 23B of the Federal Reserve Act, which prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution, as those prevailing at the time for comparable transactions with nonaffiliated companies. The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Dividends. A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless the bank has transferred to surplus no less than one-tenth of its net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. In addition, under FDICIA, the banks may not pay a dividend if, after paying the dividend, the bank would be undercapitalized. See *Capital Regulations* below.

Branching. National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current Mississippi law, the Banks may open branches throughout Mississippi with the prior approval of the OCC. In addition, with prior regulatory approval, the Banks are able to acquire existing banking operations in Mississippi. Furthermore, federal legislation has recently been passed which permits interstate branching. The new law permits out of state acquisitions by bank holding companies (subject to veto by new state law), interstate branching by banks if allowed by state law, interstate merging by banks, and de novo branching by national banks if allowed by state law. See *Recent Legislative Developments*.

Community Reinvestment Act. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC, the OCC, or the Office of Thrift Supervision shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

Other Regulations. Interest and certain other charges collected or contracted for by the Banks are subject to state usury laws and certain federal laws concerning interest rates. The Bank's loan operations are subject to certain federal laws applicable to credit transactions, such as the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs community it serves; the Equal Credit Opportunity Act, prohibiting discrimination on the basis of creed or other prohibited factors in extending credit; the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; the Fair Debt Collection Act, concerning the manner in which consumer debts may be collected by collection agencies; and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations of the Bank also are subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Capital Regulations. The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies, account for off-balance sheet exposure, and minimize disincentives for holding liquid assets. The resulting capital ratios represent qualifying capital as a percentage of total risk-weighted assets and off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that banks and bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios well in excess of the minimums. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common shareholders' equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan and lease losses. Tier 2 capital includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets.

Under the guidelines, banks' and bank holding companies' assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for first mortgage

loans fully secured by residential property and, under certain circumstances, residential construction loans, both of which carry a 50% rating. Most investment securities are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% rating, and direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies, which have a 0% rating.

The federal bank regulatory authorities have also implemented a leverage ratio, which is Tier 1 capital as a percentage of average total assets less intangibles, to be used as a supplement to the risk-based guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank holding company may leverage its equity capital base. The minimum required leverage ratio for top-rated institutions is 3%, but most institutions are required to maintain an additional cushion of at least 100 to 200 basis points.

FDICIA established a capital-based regulatory scheme designed to promote early intervention for troubled banks and requires the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. To qualify as a well capitalized institution, a bank must have a leverage ratio of no less than 5%, a Tier 1 risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the Bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. As of December 31, 2005, the Company and The First, were qualified as well capitalized.

Under the FDICIA regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees; or (vi) divest themselves of all or part of their operations. Bank holding companies controlling financial institutions can be called upon to boost the institutions' capital and to partially guarantee the institutions' performance under their capital restoration plans.

These capital guidelines can affect the Company in several ways. If the Company continues to grow at a rapid pace, a premature squeeze on capital could occur making a capital infusion necessary. The requirements could impact the Company's ability to pay dividends. The Company's present capital levels are more than adequate; however, rapid growth, poor loan portfolio performance, or poor earnings performance could change the Company's capital position in a relatively short period of time.

Failure to meet these capital requirements would mean that a bank would be required to develop and file a plan with its primary federal banking regulator describing the means and a schedule for achieving the minimum capital requirements. In addition, such a bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless the Bank could demonstrate a reasonable plan to meet the capital requirement within a reasonable period of time.

Enforcement Powers. FIRREA expanded and increased civil and criminal penalties available for use by the federal regulatory agencies against depository institutions and certain institution-affiliated parties (primarily including management, employees, and agents of a financial institution, independent contractors such as attorneys and accountants, and others who participate in the conduct of the financial institution's affairs). These practices can include the failure of an institution to timely file required reports; the filing of false or misleading information; or the submission of inaccurate reports. Civil penalties may be as high as \$1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, FIRREA expanded the appropriate banking agencies' power to issue cease and desist orders that may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications, or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Effect of Governmental Monetary Policies. The earnings of the Bank are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Board's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon

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the levels of bank loans, investments, and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Recent Legislative Developments. On September 29, 1994, the federal government enacted the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Banking Act). This Act became effective on September 29, 1995 and permits eligible bank holding companies in any state, with regulatory approval, to acquire banking organizations in any other state. Since June 1, 1997, the Interstate Banking Act has allowed banks with different home states to merge, unless a particular state opts out of the statute. In addition, beginning June 1, 1997, the Interstate Banking Act has permitted national and state banks to establish de novo branches in another state if there is a law in that state which applies equally to all banks and expressly permits all out-of-state banks to establish de novo branches.

On November 12, 1999, President Clinton signed into law the Gramm- Leach-Bliley Act of 1999 (the Financial Services Modernization Act). The Financial Services Modernization Act repeals the two affiliation provisions of the Glass-Steagall Act: Section 20, which restricted the affiliation of Federal Reserve Member Banks with firms engaged principally in specified securities activities; and Section 32, which restricts officer, director, or employee interlocks between a member bank and any company or person primarily engaged in specified securities activities. In addition, the Financial Services Modernization Act also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law is to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHCA framework to permit a holding company system to engage in a full range of financial activities through a new entity known as a Financial Holding Company. Financial activities is broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

Generally, the Financial Services Modernization Act:

Repeals historical restrictions on, and eliminates many federal and state law barriers to, the activities of securities firms, insurance companies, and other financial service providers;

Provides a uniform framework for the functional regulation of the activities of banks and their holding companies;

Broadens the activities that may be conducted by national banks, banking subsidiaries, and their financial subsidiaries;

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Provides an enhanced framework for protecting the privacy of consumer information;

Adopts a number of provisions related to the capitalization, membership, corporate governance, and other matters designed to modernize the Federal Home Loan Bank system;

Modifies the laws governing the implementation of the Community Reinvestment Act ("CRA");

Addresses a variety of other legal and regulatory issues affecting both day-to-day operations and the activities of financial institutions.

In order for a bank holding company to take advantage of the ability to affiliate with other financial services providers, that company must become a Financial Holding Company as permitted under an amendment to the BHCA. To become a Financial Holding Company, the company would file a declaration with the Federal Reserve, electing to engage in activities permissible for Financial Holding Companies and certifying that it is eligible to do so because all of its insured depository institution subsidiaries are well-capitalized and well-managed. In addition, the Federal Reserve must also determine that each insured depository institution subsidiary of the Company has at least a satisfactory CRA rating.

The Financial Services Modernization Act also permits national banks to engage in expanded activities through the formation of financial subsidiaries. A national bank may have a subsidiary engaged in any activity authorized for national banks directly or any financial activity, except for insurance underwriting, insurance investments, real estate investment or development, or merchant banking, which may only be conducted through a subsidiary of a Financial Holding Company. Financial activities include all activities permitted under new sections of the

BHCA or permitted by regulation.

A national bank seeking to have a financial subsidiary, and each of its depository institution affiliates, must be well-capitalized and well-managed. The total assets of all financial subsidiaries may not exceed the lesser of 45% of a bank's total assets, or \$50 billion. A national bank must exclude from its assets and equity all equity investments, including retained earnings, in a financial subsidiary. The assets of the subsidiary may not be consolidated with the bank's assets. The bank must also have policies and procedures to assess financial subsidiary risk and protect the bank from such risks and potential liabilities.

The Financial Services Modernization Act also includes a new section of the Federal Deposit Insurance Act governing subsidiaries of state banks that engage in activities as principal that would only be permissible for a national bank to conduct in a financial subsidiary. It expressly preserves the ability of a state bank to retain all existing subsidiaries. Because Mississippi permits commercial banks chartered by the state to engage in any activity permissible for national banks, the state bank competitors of The First will be permitted to form subsidiaries to engage in the activities authorized by the Financial Services Modernization Act, to the same extent as The First. In order to form a financial subsidiary, a state bank must be well-capitalized, and the state bank would be subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks.

During January 2001, the Company made application and was approved by the Federal Reserve Bank to become a financial holding company; however, the Company has no current plans to pursue expanded activities under the Financial Services Modernization Act. The Company's management has not determined at this time whether it will seek to form a financial subsidiary. The Company is examining its strategic business plan to determine whether, based on market conditions, the relative financial conditions of the Company and its subsidiaries, regulatory capital requirements, general economic conditions, and other factors, the Company desires to utilize any of its expanded powers provided in the Financial Services Modernization Act.

The Company and the Bank do not believe that the Financial Services Modernization Act will have a material adverse effect on operations in the near-term. However, to the extent that it permits banks, securities firms, and insurance companies to affiliate, the financial services industry may experience further consolidation. The Financial Services Modernization Act is intended to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, this act may have the result of increasing the amount of competition that the Company and the Bank face from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than the Company and the Bank.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. This legislation represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered, or that file reports under, the Securities Exchange Act of 1934. In particular, the act establishes new requirements for audit committees, including independence, expertise and responsibilities; additional responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company and new requirements for them to certify the accuracy of periodic reports; new standards for auditors and regulation of audits; increased disclosure and reporting obligations for the reporting company and its directors and executive officers, including an accelerated time frame for reporting of insider transactions; and new and increased civil and criminal penalties for violations of the federal securities laws. The legislation also established a new accounting oversight board to enforce auditing standards and restrict the scope of services that accounting firms may provide to their public company audit clients.

We file reports with the Securities and Exchange Commission including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet site at www.sec.gov that contains the report, proxy and information statements, and other information we file electronically. Our website address is www.thefirstbank.com. We make available free of charge through our website under the SEC Filings heading, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after this material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

From time to time, various bills are introduced in the United States Congress with respect to the regulation of financial institutions. Certain of these proposals, if adopted, could significantly change the regulation of banks and the financial services industry. The Company cannot predict whether any of these proposals will be adopted or, if adopted, how these proposals would affect the Company.

MANAGEMENT

The Board of Directors

The Company's Board of Directors is divided into three classes with staggered terms, so that the terms of only approximately one-third of the Board members expire at each annual meeting. The terms of the Class III, Class I, and Class II directors will expire at the Company's 2007, 2008, and 2009 Annual Shareholders' Meetings, respectively. Our directors and their classes are:

Class I	Class II	Class III
Perry E. Parker Ted E. Parker Dennis L. Pierce J. Douglas Seidenburg A. L. Smith Gregory H. Mitchell	David E. Johnson Charles R. Lightsey Andrew D. Stetelman Ralph T. Simmons Michael W. Chancellor	David W. Bo E. Ricky Fred A. M. Ray (Hopp Gerald Clai Peeler G. L

Executive Officers

Our board of directors has the power to appoint our officers. Each officer holds office for such term as may be prescribed by the board of directors and until such person's successor is chosen and qualified or until such person's death, resignation, or removal. The executive officers of the Company are David E. Johnson, Chief Executive Officer; M. Ray Cole, Jr., President, and Donna T. Lowery, Chief Financial Officer.

Information Regarding the Company's Directors and Executive Officers

David E. Johnson, 52, is the Chief Executive Officer and Chairman of the Board of the Company. Mr. Johnson, a native of Laurel, Mississippi, received a B.S. degree in Agricultural Economics in 1975 and an M.B.A. degree, with emphasis in Finance, in 1977 from Mississippi State University. In 1990, he graduated from the University of Oklahoma Commercial Lending and Graduate School. Mr. Johnson has completed various OMEGA lending courses and has taught a course at the University of Mississippi School of Banking. From 1993 to 1994, he served as chairman of the Southern Mississippi Group of Robert Morris & Associates. From 1987 to 1995, Mr. Johnson was with Sunburst Bank, now merged with Union Planters National Bank, as senior lender for the Hattiesburg branch and later as senior lender and credit administrator for southern Mississippi. He was responsible for approving loans and maintaining the credit quality of a \$250 million portfolio of consumer, mortgage, and commercial loans. Currently, he is a member of Parkway Heights United Methodist Church, the Hattiesburg Racquet Club, and a director of the Hattiesburg Rotary Club. He is a Director of the New Orleans Branch of the Atlanta Federal Reserve Bank, has served as a Director of the Area Development Partnership, and is on the Advisory Board for the Business School at the University of Southern Mississippi. He is a National Director of the Independent Community Bankers of America. Mr. Johnson has also headed the Lamar County Chamber of Commerce. Mr. Johnson was born in Laurel, Mississippi in 1953. Mr. Johnson has been a director of the Company since 1995 and is also a director of the bank.

Andrew D. Stetelman, 45, is the third generation of his family in London and Stetelman Realtors. He graduated from the University of Southern Mississippi in 1983. He has served in many capacities with the National and Hattiesburg Board of Realtors, and is past president and the Realtor of the Year in 1992 of the Hattiesburg Board of Realtors. He presently serves as the chairman of the Hattiesburg Convention Center, is an ambassador for the Area Development Partnership, and is a member of the Kiwanis International. Mr. Stetelman was born in 1960 in Hattiesburg, Mississippi. Mr. Stetelman has been a director of the Company since 1995 and is also a director of the bank.

Ralph T. Simmons, 73, is a retired vice president of Sunbeam-Oster Corporation, where he was employed from 1963 to 1995 as credit manager, assistant treasurer, and vice president. Mr. Simmons has served as chairman of the deacons of the First Baptist Church of Laurel, chairman of the Salvation Army, Chairman of the Red Cross, chairman of the FBLA/PBL Foundation, president of the University of Southern Mississippi World Wide Alumni Association, Lt. Gov. of the LA-MS-WTN District of Kiwanis International, and moderator of the Jones County Baptist Association. Mr. Simmons is also a member of the board of directors of the University of Southern Mississippi Foundation and currently serves as chairman of the Investment Committee of the University of Southern Mississippi Foundation. Mr. Simmons is a native of Laurel, Mississippi and graduated from the University of Southern Mississippi with a B.S. degree. Mr. Simmons was a director of the Company from 1998 to 2002.

and from 2003 to the present. He served on the board of the Laurel bank prior to consolidation. He currently serves on the Laurel Advisory Board and the board of the bank.

Charles R. Lightsey, 66, owns his own business as a Social Security Disability Representative. Mr. Lightsey worked with the Social Security Administration for 39 years, serving as District Manager of the Laurel Office for 32 years. He is a recipient of The Commissioner's Citation, the highest accolade accorded by the SSA. His community involvement includes serving as a former deacon of the First Baptist Church of Laurel, member and Board of Directors of the Laurel Kiwanis Club, president of the Laurel-Jones County Council on Aging, member of the Pine Belt Mental Health Association Council and Chairman of the Federal, State and Local Government United Way. He received his degree in Management and Real Estate from the University of Southern Mississippi in 1961. Mr. Lightsey has been a director of the Company since 2003 and served on the board of the Laurel bank prior to consolidation. He currently serves on the Laurel Advisory Board and the board of the bank.

Michael W. Chancellor, 38, a Laurel businessman, is a Dealer at Martin Motor Company—a business he entered in 2001, is managing partner in Chancellor Properties, a real estate investment company, and President of CESCO. He holds his B.S. in Business Administration with an emphasis in Marketing from the University of Southern Mississippi. He is an Elder of First Trinity Presbyterian Church in Laurel and is a Rotarian. He was an active member of the Laurel bank board since inception prior to consolidation and currently serves on the Laurel Advisory Board.

Perry Edward Parker, 40, graduated from the University of Southern Mississippi in 1985 with a BS degree in Business Administration. He graduated from the University of Chicago Graduate School of Business in 1989 with an M.B.A. in Finance. Perry worked for Goldman Sachs and Associates as a Currency derivative trader from 1987 until 1995 in Chicago, New York, and London. In 1995 Mr. Parker became employed by Deutsche Bank and was employed with the bank until 2005 in various management and risk taking capacities leaving as a Managing Director in charge of Macro Proprietary Trading in the Global Markets division. In May 2005, Perry joined Peloton Partners Capital Management, a London based hedge fund as a Partner. Perry moved to Santa Barbara, California from London in September, 2005, opening Peloton's U.S. office. He has been a director of the Company since 1995.

Ted E. Parker, 46, attended the University of Southern Mississippi and served as a licensed commodity floor broker at the Chicago Mercantile Exchange. He has been in the stocker-grazer cattle business for the past 20 years and is the owner of Highlander Laundry Center. He was selected as Lamar County Young Farmer and Rancher for 1993 and served as a board member of Farm Bureau Insurance. He is a member of the National Cattlemen's Association, the Texas Cattle Feeders Association, and the Seminary Baptist Church. Mr. Parker has been a director of the Company since 1995 and is also a director of the bank.

Dennis L. Pierce, 48, is president of Dennis Pierce, Inc., a real estate development company in Hattiesburg, Mississippi, and the owner and president of PierCon, Inc. of Hattiesburg, a general contracting firm. Through PierCon, Mr. Pierce is responsible for several commercial construction jobs, and he is also involved in numerous commercial ventures. Mr. Pierce is a director and national representative of the Hattiesburg Homebuilders Association, and a director of the North Lamar Water Association. Since 1995, he has been a member and broker with the Hattiesburg Board of Realtors. He attended the University of Southern Mississippi. Mr. Pierce has been a director of the Company since 1995 and is also a director of the bank.

J. Douglas Seidenburg, 46, is the owner and president of Molloy-Seidenburg & Co., P.A. He has been a CPA for more than 20 years. Mr. Seidenburg is involved in many civic, educational, and religious activities in the Jones County area. Past activities include serving as president of the Laurel Sertoma Club, president of the University of Southern Mississippi Alumni Association of Jones County, one of the founders of First Call for Help, a local United Way Agency started in 1990, treasurer of St. John's Day School, director of Leadership Jones County and Future Leaders of Jones County. Mr. Seidenburg is a graduate of the University of Southern Mississippi, where he earned a B.S. degree in Accounting. Mr. Seidenburg has been a director of the Company since 1998 and served as director of the Laurel Bank prior to consolidation. He currently serves on the Laurel Advisory Board and is also a director of the bank.

A. L. Pud Smith, 77, was born in 1929 in Brooklyn, Mississippi. Before attending the University of Southern Mississippi, Mr. Smith was in the military. He entered the petroleum business in 1960, starting with a service station, and was the owner and manager of A. L. Smith Oil Company, Inc., a wholesale and retail petroleum products company, for many years. He is now semi-retired and serves as a consultant in the business. Mr. Smith's community activities range from being the Mayor of the City of Lumberton, past president of the Jaycees, past president of the Lions Club, and a member of the Rotary Club (a Paul Harris Fellow). He is an active member of the First Baptist Church of Lumberton where he is a deacon and has been a member of the finance committee for more than 30 years. Mr. Smith has been a director of the Company

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since 1995 and is also a director of the bank.

Gregory H. Mitchell, 65, serves as the Mayor of Picayune, Mississippi, and also served as procurement manager for Mississippi Space Services at Stennis Space Center prior to his retirement. Mr. Mitchell is a member of Salem Baptist Church, the National Management Association (NMA), the Board of Trustees for Pearl River Community College, the Board of Directors for the Picayune Chamber of Commerce; the Field Advisory Council, Division of Housing and Urban Development; and the Executive Committee, Mississippi Municipal League. Mr. Mitchell has been a director of the Company since 2003 and also serves on the Picayune Advisory Board and on the board of the bank.

David W. Bomboy, M.D., 59, is a lifelong resident of Hattiesburg, Mississippi. He graduated with honors in Pre-Medicine from the University of Mississippi in 1968 and earned an M.D. degree from the University of Mississippi Medical Center in 1971. Dr. Bomboy completed his orthopedic surgical training at the University of Mississippi in 1976. He is a board-certified orthopedic surgeon and has practiced orthopaedics in southern Mississippi for more than 20 years. Dr. Bomboy is a member of the Mississippi State Medical Association, the American Medical Association, and served as past president of the Mississippi Orthopedic Society. He is the past president of the Methodist Hospital Medical Staff. Dr. Bomboy has been a director of the Company since 1995 and is also a director of the bank.

E. Ricky Gibson, 49, has been president and owner of N&H Electronics, Inc., a wholesale electronics distributor, since 1988 and of Mid South Electronics, a wholesale consumer electronics distributor, since 1993. He is active in the Parkway Heights United Methodist Church. Mr. Gibson has been a director of the Company since 1995 and is also a director of the bank.

Fred A. McMurry, 41, is a lifetime resident of the Oak Grove area. He is currently President and General Manager of Havard Pest Control, Inc. with 21 years of experience in this family-owned business. He also serves on the Advisory Board of the Mississippi Pest Control Association as well as on the Board of the Mississippi Business and Finance Committee. In addition, he is President of West Oaks, LLC and Vice President of Oak Grove Land Company, Inc. Mr. McMurry has been a director of the Company since 1995 and is also a director of the bank.

M. Ray (Hoppy) Cole, 44, currently serves as President of the Picayune branch of the bank. In 2005, he was named President of The First Bancshares, Inc. Prior to joining the bank in September of 2002, Mr. Cole was Secretary/Treasurer and Chief Financial Officer of the Headrick Companies, Inc. for eleven years. Mr. Cole began his career with The First National Bank of Commerce in New Orleans, Louisiana and held the position of Corporate Banking Officer from 1985-1988. In December of 1988, Mr. Cole joined Sunburst Bank in Laurel, Mississippi serving as Senior Lender and later as President of the Laurel office. Mr. Cole graduated from the University of Mississippi where he earned a Bachelor's and Master's Degree in Business Administration. Mr. Cole also attended the Stonier Graduate School of Banking at the University of Delaware. Mr. Cole is serving his second term as a director of the Company. He served from 1998 to 1999, and then from 2001 through the present. He also served as a director of our Laurel Bank prior to consolidation and currently serves on the board of the bank.

Gerald C. Patch, 52, is the sole and managing member of the Gerald C. Patch, PLLC, a law firm in Picayune, Mississippi. Mr. Patch is a 1971 graduate of Picayune Memorial High School; a 1975 graduate of Mississippi State University with a B.S. Degree in Business Management; and a 1978 graduate of the University of Mississippi School of Law. He practiced law in Picayune from 1978 until 1984 when he joined a law firm in Titusville, Florida from 1984 until 1993. While in Picayune, he served as a member of the Picayune City Council, the Board of Directors for the Picayune Chamber of Commerce, and as City Judge in Poplarville. Mr. Patch resided in Branson, Missouri from 1993 until late 2001 where he served as president of Ozark Laundry, Inc., a company that specialized in wet garment processing for clothing manufacturers. In January, 2002, Mr. Patch moved back to his home town of Picayune, Mississippi and resumed his practice of law. He presently serves as attorney for the Picayune School District School Board; as City Prosecutor for the City of Picayune, on the advisory board for Coast Electric Power Association and the board of directors for Millbrook Golf & Country Club. Mr. Patch has been a member of the board of directors of the Company since 2003 and also serves on the Picayune Advisory Board, as well as the board of directors of the bank.

Peeler G. Lacey, M.D., 51, is partner in Radiology Associates, P.A. in Laurel, MS and has practiced Diagnostic Radiology in South Mississippi for more than 22 years. After graduating from Emory University in Atlanta, Georgia in 1975, he earned his M.D. degree from the University of Mississippi Medical School in 1979. He completed his Diagnostic Radiology residency at the University of Mississippi Medical Center in 1983, and is a Diplomat of the American Board of Radiology. Dr. Lacey is a member of the American College of Radiology, American Medical Association, Mississippi State Medical Association, Radiological Society of North America, American Roentgen Ray Society, Southern Radiology Society, and the South Mississippi Medical Society. He is the past president of the Medical Staff at South Central Regional Medical Center in Laurel and is the past president of the South Mississippi Medical Society. He is an active member of the First Baptist Church of Laurel where he teaches Sunday school and is a deacon. He has served as chairman of the Deacons, chairman of the Personnel Committee and chairman of the Missions Committee. He is a member of the Executive Board of the Pine Burr Area Council of the Boy Scouts of America. Dr. Lacey has served as chairman of the Pine Burr Area Council of the National Eagle Scout Association and as past chairman of the Chickasawhay District of the Boy Scouts of America. Dr. Lacey has served on the board since 2004 and is also on the board of the bank.

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Donna T. Lowery, CPA, 39, serves as Executive Vice President and Chief Financial Officer of the Company and the bank. Prior to joining the bank in February of 2005, Ms. Lowery was Vice President and Investment Portfolio Manager of Hancock Holding Company for 4 years. Ms. Lowery began her career in 1988 with McArthur, Thames, Slay and Dews, PLLC as a staff accountant until joining Lamar Capital Corporation in 1993. From 1993 until the merger in 2001 with Hancock Holding Company, Ms. Lowery held several positions beginning with Internal Auditor for 2 years, Comptroller for 3 years and then Chief Financial Officer and Treasurer for 3 years. Ms. Lowery graduated from the University of Southern Mississippi where she earned a Bachelor's Degree in Business Administration with an emphasis in Accounting. Ms. Lowery is a member of the Ms Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Ms. Lowery is a member of the Funds Distribution Committee of the United Way, the Rotary Club of Petal and is currently serving as President of the Petal Children's Task Force. Ms. Lowery is also an active member of Carterville Baptist Church.

Family Relationships

Perry E. Parker and Ted E. Parker, both directors, are brothers. M. Ray Hoppy Cole, Jr, Director, President of the Company, and President, Picayune Branch, is the son of Ellen Cole, President, Pascagoula Branch.

Certain Transactions with Management

Certain Relationships and Related Transactions

Officers, directors and 10% beneficial owners of the Company and its associates, including members of their families or corporations, partnerships, or other organizations in which such officers or directors have a controlling interest, are customers of the bank and have transactions with the banks in the ordinary course of business, and may continue to do so in the future. All outstanding loans and commitments included in such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than normal risk of collectability or present other unfavorable features.

Section 16(a) Beneficial Ownership Reporting Compliance

Director and Executive Officer Compensation

Compensation of the Board of Directors

During 2005, each outside director of the Company received \$200.00 for each meeting that was attended. Directors of The First, A National Banking Association, received \$300.00 for each meeting that was attended. Directors of the Corporation and the bank received \$40.00 for each regular committee meeting that was attended and \$125.00 for each audit committee meeting attended. If a director did not attend a meeting, a fee was not received. Normally, Board meetings are held once quarterly and committee meetings are held on an as needed basis. Bank board meetings are held monthly.

Compensation of Executive Officers

The following table shows the cash compensation paid by the Company to its executive officers. No other executive officers of the Company or its subsidiaries earned total annual compensation, including salary and bonus, in excess of \$100,000 in 2005.

Summary Compensation Table

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Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Restricted Stock Awards (\$)
David E. Johnson Chief Executive Officer	2005	\$136,585	\$63,950	0	0
	2004	132,181	41,991	0	0
	2003	132,812	31,788	0	0
M. Ray Cole, Jr. President	2005	\$128,779	\$18,626	0	0
	2004	124,681	6,396	0	0
	2003	124,400	0	0	0
Donna T. Lowery (1) Chief Financial Officer	2005	\$ 82,154	0	0	0
	2004	0	0	0	0
	2003	0	0	0	0

Option Grants

Stock options in the amount of 2,430 shares at \$12.50 per share were granted during 2005 to M. Ray Cole, Jr. and stock options in the amount of 1,000 shares at \$12.50 per share were granted during 2005 to Donna T. Lowery.

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STOCK OPTION GRANTS IN LAST FISCAL YEAR
INDIVIDUAL GRANTS

Name	Options Granted	Percent of Total Granted	Option Price	Expiration Date	Potential Realizable Value
M. Ray Cole, Jr., President	2,430	31%	\$12.50	4/15/2009	\$10,1
Donna T. Lowery, CFO	1,000	13%	\$12.50	4/15/2009	\$4,1

(1) Value was calculated using the Black-Scholes option valuation model.

Option Exercises and Year End Values

The following table provides information as to the options exercised during 2005, and the unexercised options to purchase the Company's common stock previously granted to the executive officers named in the Summary Compensation Table and held by them at the end of 2005.

OPTIONS EXERCISED IN 2005 AND YEAR END OPTION VALUE

Name	Shares Acquired on Exercise In 2005 (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options At Year End (#) (1) (3) Exercisable/Unexercisable
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David E. Johnson President & Chief Executive Officer	0	0	109,960/0
M. Ray Cole, Jr. President, Picayune	0	0	9,4309/2,430
Donna T. Lowery, Chief Financial Officer	0	0	0/1,000

- (1) All stock options granted under the 1997 Stock Option Plan are vested and exercisable as granted were exercisable on 3-18-98; one-third of the options granted were exercisable on 3-18-99 were exercisable on 3-18-2000. The options granted under the 1997 Stock Option Plan expire on 3 under the 1999 Stock Incentive Plan are vested and exercisable as follows: one-third of the opti for three years. The options granted under the 1999 Stock Option Plan expire on 4-15-2009.
- (2) Based on the closing price on the OTC Bulletin Board of \$16.00 on December 30, 2005.
- (3) Reflects two-for-one stock split for shareholders of record as of March 1, 2006, eff

Employment Agreements

David E. Johnson, Chairman of the Board and CEO, entered into an amended and restated employment agreement with the company on November 20, 1995, which was incorporated by reference to Exhibit 10.7 of the Company's Form 10-KSB for the fiscal year ended December 31, 1995, File No. 33-94288. The amended and restated employment agreement has been renewed for additional three year periods since the original expiration. The current expiration of the employment agreement is August, 2007.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is responsible for establishing the compensation plans for the bank. Its duties include the development with management of all benefit plans for employees of the bank, the formulation of bonus plans, incentive compensation packages, and medical and other benefit plans. The Compensation Committee met five times during the year ended December 31, 2005, and has met 6 times during 2006. The Compensation Committee is composed of the following members: A. L. Smith, E. Ricky Gibson, Ted Parker, Ralph Simmons and David Bomboy, all of whom are independent directors.

Audit Committee

The Audit Committee of the Company is composed of the following independent members: J. Douglas Seidenburg, E. Ricky Gibson, Ralph Simmons, Charles Lightsey, and Perry Parker. The Audit Committee met three times during the year ended December 31, 2005 and has met 4 times during 2006. The Audit Committee has the responsibility of reviewing the Company's financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities, and determining that all audits and examinations required by law are performed. The Committee also recommends to the Board of the Company the appointment of the independent auditors for the next fiscal year, reviews and approves the auditor's audit plans, and reviews with the independent auditors the results of the audit and management's responses. The Audit Committee is responsible for overseeing the entire audit function and appraising the effectiveness of internal and external audit efforts for the Company. The Audit Committee reports its findings to the Board of Directors of the Company. The Board of Directors has determined that the members of the Audit Committee are independent. The Board of Directors has also determined that there is at least one independent audit committee financial expert, J. Douglas Seidenburg, serving on the Audit Committee, as the term "financial expert" is used in pertinent Securities and Exchange Commission laws and regulations.

PRINCIPAL SHAREHOLDERS

Stock Ownership of 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 March 16, 2006. This reflects the two-for-one stock split for shareholders of record as of March 1, 2006, effective on March 15, 2006.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership(1) -----	Right to Acquire(2) -----	Percent of -----
David W. Bomboy, M.D. 17 Brighton Court Hattiesburg, MS 39402	52,500	8,900	2.3
M. Ray (Hoppy) Cole 607 Briarwood Lane Picayune, MS 39466	13,334	9,430	0.8
E. Ricky Gibson 127 W. Canebrake Blvd. Hattiesburg, MS 39402	37,540	8,900	1.8
David E. Johnson 108 Greenwood Place Hattiesburg, MS 39402	40,628	109,960	5.8
Peeler G. Lacey, M.D. 2432 Ridgewood Drive Laurel, MS 39440	48,000	3,430	1.9
Charles R. Lightsey 2216 Old Bay Springs Rd. Laurel, MS 39440	28,000	3,430	1.2
Fred A. McMurry 42 Johnie McMurry Rd. Hattiesburg, MS 39402	43,594	8,900	2.0
Gregory H. Mitchell 1200 Third Avenue Picayune, MS 39466	1,200	0	.0
Trent A. Mulloy (former director) 63 Northgate Drive Laurel, MS 39440	20,000	3,430	.9

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership(1) -----	Right to Acquire(2) -----	Percent of -----
--	--	---------------------------------	---------------------

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Perry E. Parker 4739 Calle Las Brisas Santa Barbara, CA 93110	86,334	8,900
Ted E. Parker 165 Herbert Trigg Rd. Seminary, MS 39479	25,000	8,900
Gerald Claiborne Patch 38 Eldridge Patch Rd. Picayune, MS 39466	400	0
Dennis L. Pierce 23 Liberty Place Hattiesburg, MS 39402	27,170	8,900
J. Douglas Seidenburg 18 Lakeland Drive Laurel, MS 39440	52,000	3,430
Ralph T. Simmons 1808 7th Ave. Laurel, MS 39440	38,734	3,430
A. L. Smith P. O. Box 124 Lumberton, MS 39455	28,562	2,338
Andrew D. Stetelman 1105 Oakleigh Dr. Hattiesburg, MS 39402	22,504	8,900
Michael W. Chancellor P. O. Box 648 Laurel, MS 39441	17,734	3,430
Donna T. Lowery 35 Dove Hollow Petal, MS 39465	11,498	0

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Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership(1) -----	Right to Acquire(2) -----	Percent of -----
Executive Officers, Directors, and Nominees as a group	594,732	204,608	31

(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 the

Does not include shares that may be acquired by exercising stock options.

(2) Includes shares that may be acquired within the next 60 days by exercising vested stock any other stock options.

(3)

Determined by assuming the named person exercises all options which he or she has the right to acquire within 60 days, but that no other persons exercise any options. Calculated based on common shares outstanding plus outstanding stock options in the amount of 201,178 shares.

Stock Ownership of Principal Stockholders

As of March 16, 2006, to the Company's knowledge, there were no beneficial owners of five percent (5%) or more of the Company's outstanding common stock.

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DESCRIPTION OF OUR CAPITAL STOCK

This summary is not intended to be relied upon as an exhaustive list or a detailed description of the provisions discussed and is qualified in its entirety by the Mississippi Business Corporation Act (MBCA) and by the Articles of Incorporation and Bylaws of First Bancshares.

Authorized Capital

First Bancshares has 10,000,000 shares of authorized Common Stock, \$1.00 par value, and authority to issue up to 10,000,000 shares of Preferred Stock, \$1.00 par value, with such preferences, limitations, and relative rights as determined by the Board of Directors. As of September ____, 2006 there were 2,379,630 shares of Common Stock issued and outstanding. No shares of preferred stock are currently issued and outstanding.

Voting Rights; Cumulative Voting

Pursuant to the MBCA and First Bancshares' Bylaws, each outstanding share of First Bancshares stock is entitled to one vote on each matter submitted to a vote. Holders of First Bancshares Common Stock do not have cumulative voting rights. Article 2.6 of the First Bancshares Bylaws provides that unless otherwise required by the MBCA or the Articles, all classes or series of First Bancshares shares entitled to vote generally on a matter shall for that purpose be considered a single voting group.

Limitations on Directors' and Officers' Liability

Article 7 of First Bancshares' Articles of Incorporation provide that no director of First Bancshares shall be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for any appropriation in violation of fiduciary duties of any business opportunity; for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of law, under Section 79-4-8.33 of the MBCA, or for any transaction from which the director derived an improper personal benefit. Article 8 of First Bancshares' Bylaws provide for indemnification of Directors and Officers as discussed below under the caption Indemnification.

Supermajority Voting Requirements; Business Combinations or Control Share Acquisition

The MBCA states that in the absence of a greater requirement in the articles of incorporation, a sale, lease, exchange, or other disposition of all, or substantially all, a corporation's property requires approval by a majority of the shares entitled to vote on the transaction. The First Bancshares Articles of Incorporation do not provide for a greater than majority vote on such a transaction.

The First Bancshares Articles of Incorporation do include a Control Share Acquisition provision requiring any person who plans to acquire a control block of stock (generally defined as 10%) to obtain approval by the majority vote of disinterested shareholders or the affirmative vote of

75% of eligible members of the Board of Directors in order to vote the control shares. If a control share is made without first obtaining this approval, all stock beneficially owned by the acquiring person in excess of 10% will be considered excess stock and will not be entitled to vote.

Any person who proposes to make or has made a control share acquisition may deliver a statement to First Bancshares describing the person's background and the control share acquisition and requesting a special meeting of shareholders of First Bancshares to decide whether to grant voting rights to the shares acquired in the control share acquisition. The acquiring person must pay the expenses of this meeting. If no request is made, the voting rights to be accorded the shares acquired in the control share acquisition shall be presented to the next special or annual meeting of the shareholders. If the acquiring person does not deliver his or her statement to First Bancshares, it may elect to repurchase the acquiring person's shares at fair market value. Control shares acquired in a control share acquisition are not subject to redemption after an acquiring person's statement has been filed unless the shares are not accorded full voting rights by the shareholders.

Removal of Directors

Article 11 of First Bancshares' Articles of Incorporation provide that no director of First Bancshares may be removed except by the shareholders for cause; provided that directors elected by a particular voting group may be removed only by the shareholders in that voting group for cause. Article 3.3 of First Bancshares' Bylaws provide further that removal action may only be taken at a shareholders' meeting for which notice of the removal action has been given. A removed director's successor may be elected at the same meeting to serve the unexpired term.

Board of Directors

Under Article 10 of the First Bancshares' Articles of Incorporation, the Board of Directors of First Bancshares is divided into three classes—Class I, Class II, and Class III as nearly equal in numbers of directors as possible. Article 3.2 of the Bylaws establishes a minimum of 9 directors, and a maximum of 25 directors. At present there are 6 Class I directors, 6 Class III directors, and 5 Class II directors. The terms of the Class III directors will expire at the 2007 Annual Shareholders' Meeting. The terms of the Class I directors will expire at the 2008 Annual Shareholders' Meeting. The terms of the Class II directors will expire at the 2009 Annual Shareholders' Meeting.

Vacancies in the Board of Directors

Under First Bancshares' Bylaws, any vacancy, may be filled for the unexpired term by the affirmative vote of a majority of the remaining directors, provided that, if the vacant office was held by a director elected by a particular voting group, only the shares of that voting group or the remaining directors elected by that voting group shall be entitled to fill the vacancy; and further provided that, if the vacant office was held by a director elected by a particular voting group, the other remaining directors or director (elected by another voting group or groups) may fill the vacancy during an interim period before the shareholders of the vacated director's voting group act to fill the vacancy.

Amendment of the Articles of Incorporation or Bylaws

Under the MBCA, the board of directors has the power to amend or repeal the bylaws of a Mississippi corporation such as First Bancshares, unless such power is expressly reserved for the shareholders. Article 10 of First Bancshares' Bylaws provide that the Bylaws may be amended, altered, or repealed by the Board of Directors, except with regard to the provisions establishing the number of directors and process for removal of directors, which may only be amended by the affirmative vote of holders of outstanding shares entitled to more than 80% of the votes entitled to be cast on the alteration, amendment, or repeal.

Amendments to the Articles of Incorporation that result in dissenters' rights require the affirmative vote of a majority of the outstanding shares entitled to vote on the amendment. Otherwise, the Articles of Incorporation may be amended by a majority vote of the shares present at a meeting where a quorum is present.

Special Meetings of Shareholders

Under First Bancshares Bylaws, special meetings of the shareholders, for any purpose or purposes, may be called by the Chairman of the Board, the Chief Executive Officer, or the Board of Directors, or within 75 days of a written request of shareholders holding in the aggregate 10% or more of the total voting power entitled to vote on an issue. Such a request must state the purpose or purposes of the proposed special meeting.

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Shareholder Proposals and Nominations

First Bancshares Bylaws provide procedures that must be followed to properly nominate candidates for election as directors. At least 60 days prior to the Annual Meeting, or 10 days after notice of the Annual Meeting is provided to shareholders, notice must be given to the Secretary of First Bancshares if a shareholder intends to nominate an individual for election to the Board of Directors or propose any shareholder action. These Bylaw provisions also require information to be supplied about both the shareholder making such nomination or proposal and the person nominated.

Indemnification

Section 79-4-8.50 through 79-4-8.59 of the MBCA provide First Bancshares with broad powers and authority to indemnify its directors and officers and to purchase and maintain insurance for such purposes and mandate the indemnification of First Bancshares directors under certain circumstances. First Bancshares Articles of Incorporation also provide it with the power and authority, to the fullest extent legally permissible under the MBCA, to indemnify its directors and officers, persons serving at the request of the First Bancshares or for its benefit as directors or officers of another corporation, and persons serving as First Bancshares representatives or agents in certain circumstances. Pursuant to such authority and the provisions of First Bancshares Articles of Incorporation, First Bancshares intends to purchase insurance against certain liabilities that may be incurred by it and its officers and directors.

The Articles of Incorporation of First Bancshares contain a provision which, subject to certain exceptions described below, eliminates the liability of a director or officer to it or its shareholders for monetary damages for any breach of duty as a director or officer. This provision does not eliminate such liability to the extent the director or officer engaged in willful misconduct or a knowing violation of criminal law or of any federal or state securities law, including, without limitation, laws proscribing insider trading or manipulation of the market for any security.

Under its Bylaws, First Bancshares must indemnify any person who becomes subject to a lawsuit or proceeding by reason of service as a director of First Bancshares or The First or any other corporation which the person served as a director at the request of First Bancshares. Except as noted in the next paragraph, directors are entitled to be indemnified against judgments, penalties, fines, settlements, and reasonable expenses actually incurred by the director in connection with the proceeding. Directors are also entitled to have First Bancshares advance any such expenses prior to final disposition of the proceeding, upon delivery of (1) a written affirmation by the director of his good faith belief that the standard of conduct necessary for indemnification has been met, and (2) a written undertaking to repay the amounts advanced if it is ultimately determined that the standard of conduct has not been met.

Under the Bylaws, indemnification will be disallowed if it is established that the director appropriated, in violation of his duties, any business opportunity of First Bancshares, engaged in acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, approved dividends or other distributions in violation of the MBCA, or engaged in any transaction in which the director derived an improper personal benefit. In addition to the Bylaws of First Bancshares, the MBCA requires that a corporation indemnify a director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he or she was a party because he is or was a director of the corporation against reasonable expenses incurred by him or her in connection with the proceeding. The MBCA also provides that, upon application of a director, a court may order indemnification if it determines that the director is entitled to such indemnification under the applicable standard of the MBCA.

The Board of Directors of First Bancshares also has the authority to extend to officers, employees, and agents the same indemnification rights held by directors, subject to all of the accompanying conditions and obligations. The Board of Directors has extended or intends to extend indemnification rights to all of its executive officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of First Bancshares pursuant to the Articles of Incorporation or Bylaws, or otherwise, First Bancshares has been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

WHERE YOU CAN FIND MORE INFORMATION

First Bancshares is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance therewith, files periodic reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information filed by First Bancshares are available to the public at the web site and EDGAR database maintained by the Commission at <http://www.sec.gov>. The documents filed by First Bancshares are also available at the Commission's Public Reference Room, which provides access to EDGAR (for documents submitted electronically) and Thomson Research (for imaged paper filings) terminals. The public library of Commission information is provided through the Commission's Public Reference Room between the hours of 9:00 a.m. - 4:00 p.m., except federal holidays and official closings, at 100 F Street, NE, Room 1580, Washington, D.C. 20549.

First Bancshares has filed with the Commission a Registration Statement on Form S-1 (the Registration Statement) under the Securities Act with respect to the common stock offered by this Prospectus. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which have been omitted pursuant to the Rules and Regulations of the Commission, and to which portions reference is hereby made for further information with respect to First Bancshares and the securities offered hereby.

As indicated below, this Prospectus incorporates by reference certain information with respect to First Bancshares, which is not presented herein or delivered herewith. Copies of any such information or documents, other than exhibits to such documents which are not specifically incorporated by reference herein, are available without charge, upon the written or oral request of any person, including any beneficial owner, to whom this Prospectus is delivered. In order to ensure timely delivery of such documents, any request should be made by September ____, 2006, and such requests should be directed to First Bancshares' principal executive offices at 6480 U.S. Hwy 98 W (39402), P. O. Box 15549 (39404-5549), Hattiesburg, Mississippi, Attention: Donna T. Lowery, Chief Financial Officer, telephone number (601) 268-8998. First Bancshares will send the requested documents by first-class mail within one business day of the receipt of the request.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by First Bancshares with the Securities and Exchange Commission (SEC) are hereby incorporated by reference:

- (1) First Bancshares' Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.
- (2) First Bancshares' Quarterly Report on Form 10-QSB for the quarter ended March 31, 2006.
- (3) First Bancshares' Quarterly Report on Form 10-QSB for the quarter ended June 30, 2006.
- (3) First Bancshares' Current Reports on Form 8-K filed on May 22, 2006, May 25, 2006, and August 2, 2006; and
- (4) The description of capital stock contained under the heading "Description of Capital Stock" in the Registration Statement on Form S-1, Registration Number 333-61081, filed by First Bancshares with the Commission on August 1, 2005, relating to the description of First Bancshares Common Stock.

All documents filed by First Bancshares pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date hereof are hereby incorporated by reference into this Prospectus and shall be deemed a part hereof from the date of filing of such documents.

Any statement contained in a document incorporated by reference shall be deemed to be modified or superseded for purposes hereof to the extent that a statement contained herein (or in any other subsequently filed document which also is incorporated by reference herein) modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed to constitute a part hereof except as so modified or superseded.

The public may read and copy any materials filed by First Bancshares with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers such as First Bancshares that file electronically with the SEC at www.sec.gov. Information regarding First Bancshares is also available on its Internet website at www.thefirstbank.com.

LEGAL MATTERS

The validity of the common stock to be issued in this offering and certain other legal matters with respect to the offering will be passed upon for us by Watkins Ludlam Winter & Stennis, P.A., Jackson, Mississippi.

EXPERTS

The consolidated balance sheets of First Bancshares as of December 31, 2005 and December 31, 2004, and the consolidated statements of operations, stockholders' equity, and cash flows of First Bancshares for the same time periods have been incorporated by reference into this Prospectus and in the Registration Statement in reliance on the report of independent registered public accounting firm T.E. Lott & Company, given on the authority of that firm as an expert in accounting and auditing.

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365,000 Shares

FIRST BANCSHARES, INC.

COMMON STOCK

PROSPECTUS

Dated September _____, 2006

Part II

Information Not Required In Prospectus

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses incurred and to be incurred in connection with the issuance and distribution of the securities registered pursuant to this registration statement:

Securities and Exchange Commission registration fee	\$ 856.00
* Printing and engraving expenses	_____
* Accounting fees and expenses	_____
* Legal fees and expenses	_____
* Transfer Agent and Registrar fees and expenses	_____
* Blue Sky fees and expenses	_____
* Miscellaneous expenses	_____
<hr/>	
*Estimated	

Item 14. Indemnification of Directors and Officers.

The Mississippi Business Corporation Act (MBCA) provides that a director, officer or agent of a corporation may be indemnified for such service if he conducted himself in good faith, and he reasonably believed in the case of conduct in his official capacity with the corporation, that his conduct was in the corporation’s best interests; and in all other cases that his conduct was at least not opposed to the corporation’s best interests. In the case of a criminal proceeding, a director must show that he had no reasonable cause to believe his conduct was unlawful. Indemnification permitted under this section in connection with a derivative action is limited to reasonable expenses incurred in connection with the proceeding.

First Bancshares’ Articles of Incorporation provide it with the power and authority, to the fullest extent legally permissible under the MBCA, to indemnify its directors and officers, persons serving at the request of the First Bancshares or for its benefit as directors or officers of another corporation, and persons serving as First Bancshares’ representatives or agents in certain circumstances. Pursuant to such authority and the provisions of First Bancshares’ Articles of Incorporation, First Bancshares intends to purchase insurance against certain liabilities that may be incurred by it and its officers and directors.

The MBCA further authorizes a corporation to make further indemnity for certain actions that do not constitute gross negligence or willful misconduct if authorized by the corporation’s Articles of Incorporation. The First Bancshares Articles provide for indemnification to the fullest extent permitted by the MBCA and specifically provide for the further indemnity authorized by the MBCA.

The Articles of Incorporation of First Bancshares contain a provision which, subject to certain exceptions described below, eliminates the liability of a director or officer to it or its shareholders for monetary damages for any breach of duty as a director or officer. This provision does not eliminate such liability to the extent the director or officer engaged in willful misconduct or a knowing violation of criminal law or of any federal or state securities law, including, without limitation, laws proscribing insider trading or manipulation of the market for any security.

Under its Bylaws, First Bancshares must indemnify any person who becomes subject to a lawsuit or proceeding by reason of service as a director of First Bancshares or The First or any other corporation which the person served as a director at the request of First Bancshares. Except as noted in the next paragraph, directors are entitled to be indemnified against judgments, penalties, fines, settlements, and reasonable expenses actually incurred by the director in connection with the proceeding. Directors are also entitled to have First Bancshares advance any such expenses prior to final disposition of the proceeding, upon delivery of (1) a written affirmation by the director of his good faith belief that the standard of conduct necessary for indemnification has been met, and (2) a written undertaking to repay the amounts advanced if it is ultimately determined that the standard of conduct has not been met.

Under the Bylaws, indemnification will be disallowed if it is established that the director appropriated, in violation of his duties, any business opportunity of First Bancshares, engaged in acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, approved dividends or other distributions in violation of the MBCA, or engaged in any transaction in which the director derived an improper personal benefit. In addition to the Bylaws of First Bancshares, the MBCA requires that a corporation indemnify a director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he or she was a party because he is or was a director of the corporation against reasonable expenses incurred by him or her in connection with the proceeding. The MBCA also provides that, upon application of a director, a court may order indemnification if it determines that the director is entitled to such indemnification under the applicable standard of the MBCA.

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The Board of Directors of First Bancshares also has the authority to extend to officers, employees, and agents the same indemnification rights held by directors, subject to all of the accompanying conditions and obligations. The Board of Directors has extended or intends to extend indemnification rights to all of its executive officers.

In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any such action, suit or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

Item 15. Recent Sales of Unregistered Securities.

During the years ended December 31, 2003, 2004, and 2005, the Company did not offer any shares of its common stock for sale except as described below.

Merger of First National Bank of Wiggins into First Bancshares

On May 19, 2006 First Bancshares entered into a Merger Agreement with First National Bank of Wiggins headquartered in Wiggins, Mississippi (FNB Wiggins). If approved by shareholders of FNB Wiggins, under the Merger Agreement former FNB Wiggins shareholders will receive in the aggregate cash and common stock of First Bancshares having a combined value of approximately \$4,152,400 (Merger Consideration). For purposes of the Merger Consideration, the Merger Agreement states that First Bancshares Common Stock will be valued at \$19.00. Under the terms of the Merger Agreement, FNB Wiggins shareholders will be entitled to receive the Merger Consideration, consisting of \$87.50 per share in cash (Cash Element) and 4.605 shares of First Bancshares common stock (Stock Element), in exchange for each share of FNB Wiggins stock owned by them, representing approximately 50% cash and 50% stock as consideration for their shares. The Company has filed with the SEC a Registration Statement on Form S-4 (File No. 136326) registering the shares to be issued under the Merger Agreement.

First Bancshares Stock Option Plans

During the years ended December 31, 2004 and 2005, and during 2006, certain holders of the Company's stock options exercised their options to purchase shares of the Company's common stock pursuant to the Company's 1997 Stock Option Plan (1997 Plan) and the Company's 1999 Stock Incentive Plan (1999 Plan). The Company has filed Registration Statements with the SEC for shares offered under both the 1997 Plan (Registration Statement on Form S-8, File No. 333-97001) and the 1999 Plan (Registration Statement on Form S-8, File No. 333-81264) .

No stock options were exercised under either plan during the year ended December 31, 2003. During the year ended December 31, 2004, 6,562 options for the Company's common stock were exercised at \$5.00 per share under the 1997 Plan. During the same year no options were exercised under the 1999 Plan. During the year ended December 31, 2005, 11,862 options for the Company's common stock were exercised at \$5.00 per share under the 1997 Plan. During the same year 25,946 options for the Company's common stock were exercised at \$7.50 per share under the 1999 Plan. To-date in 2006, 1,000 options have been exercised at \$5.00 per share under the 1997 Plan and 3,930 options have been exercised at \$7.50 per share under the 1999 Plan.

Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits and Financial Statement Schedules

- | | |
|-----|--|
| 2 | Agreement and Plan of Merger - Included as Appendix A to the Proxy Statement/Pr |
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Ex
Registration Statement No. 33-94288 on Form S-1) . |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration
Form S-1) . |
| 4.1 | Provisions in the Company's Articles of Incorporation and Bylaws defining the r
Company's Common Stock (incorporated by reference to Exhibit 4.1 to the Company |

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- No. 33-94288 on Form S-1).
- 4.2 Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.2 to the Registration Statement No. 33-94288 on Form S-1).
- 5 Opinion of Watkins Ludlam Winter & Stennis, P.A. regarding legality of shares.
- 10.5 Amended and restated employment agreement dated November 20, 1995, by and between the Company (incorporated by reference to Exhibit 10.7 of the Company's Form 10-KSB for the fiscal year ended December 31, 1995, File No. 33-94288).
- 10.6 Employment Agreement dated June 10, 1998 by and between the Company and The First Bancshares, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form 8-K filed June 25, 1998).
- 10.7 Bank Development Agreement dated June 19, 1998 by and among the Company and the National Bank of the Pine Belt (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form 8-K filed June 25, 1998).
- 10.8 First Bancshares, Inc. 1997 Stock Option Plan as of March 18, 1997 (incorporated by reference to Exhibit 10.7 of the Company's Form 10-KSB for the fiscal year ended December 31, 1996, File No. 33-94288).
- 10.9 Agreement to Repurchase Stock by and among The First Bancshares, Inc., Nick Welch and the Company (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-2).
- 13.1 Audited Financial Statements of First Bancshares (incorporated by reference to Exhibit 13.1 to the Company's Registration Statement on Form S-2 for the fiscal year ended March 31, 2006).
-
- 21.1 Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Registration Statement on Form S-2 for the fiscal year ended March 31, 1999).
- 23.1 Consent of T.E. Lott & Company
- 23.2 Consent of Watkins Ludlam Winter & Stennis, P.A. (included in Opinion)
- 24 Powers of Attorney - Included on the signature page of the Registration Statement

(b) Financial Statement Schedules.

All financial statement schedules required pursuant to this item were either included in the prospectus or are inapplicable and have therefore been omitted.

Item 17. Undertakings.

The undersigned registrant hereby undertakes that:

(a) Insofar as indemnification for liabilities arising under the Securities Act may be afforded by any contract covering transactions of the Company and its officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise permitted by law, no such contract or arrangement shall be entered into by the Company or be in effect with respect to the Company or its officers and controlling persons of the Company until the Company has advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of the Company's legal counsel it has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether indemnification by it is against public policy as expressed in the Securities Act and will be governed by the adjudication of such issue.

(b) (1) For purposes of determining any liability under the Securities Act, the information contained in the prospectus filed as part of this registration statement in reliance upon rule 430A and contained in the prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall

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this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment to this registration statement shall be deemed to be a new registration statement relating to the securities and the offering of such securities at that time shall be deemed to be the initial bona fide offering.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Jackson, Mississippi, on September 8, 2006.

FIRST BANCSHARES, INC.

By: /s/ David E. Johnson

David E. Johnson,
Chief Executive Officer

/s/ Donna T. Lowery

Donna T. Lowery,
Chief Financial Officer

Know all men by these presents, that each individual whose signature appears below constitute and warrant the undersigned and each of them, his true and lawful attorney-in-fact and agent, with full power and authority to do all such acts and things requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement is being filed with the Commission on the dates and in the capacities indicated.

SIGNATURES	TITLE	DATE
-----	-----	-----
/s/ M. Ray "Hoppy" Cole, Jr. -----	Director	September 8 -----
/s/ David Bomboy -----	Director	September 8 -----
/s/ Michael Chancellor -----	Director	September 8 -----
/s/ Ricky Gibson -----	Director	September 8 -----
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/s/ Dennis Pierce -----	Director	September 8 -----
/s/ Ted Parker	Director	September 8

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/s/ Perry Parker	Director	September 8
/s/ A. L. Smith	Director	September 8
/s/ Andrew Stetelman	Director	September 8
/s/ Charles Lightsey	Director	September 8
/s/ Ralph T. Simmons	Director	September 8
/s/ Greg Mitchell	Director	September 8
/s/ Peeler Lacey	Director	September 8
/s/ David E. Johnson	CEO and Director (Principal Executive Officer)	September 8
/s/ Donna T. Lowery	Executive VP & Chief Financial Officer (Principal and Accounting Officer)	September 8

INDEX TO EXHIBITS

Exhibit No.	Description
2	Agreement and Plan of Merger - Included as Appendix A to the Proxy Statement herein.
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to the Company's Registration Statement No. 33-94288 on Form S-1).
3.2	Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement No. 33-94288 on Form S-1).
4.1	Provisions in the Company's Articles of Incorporation and Bylaws defining the Company's Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement No. 33-94288 on Form S-1).
4.2	Form of Certificate of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement No. 33-94288 on Form S-1).
5	Opinion of Watkins Ludlam Winter & Stennis, P.A. regarding legality of the proposed merger.
10.5	Amended and restated employment agreement dated November 20, 1995, by and between the Company and the Company (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed December 15, 1995, File No. 33-94288).
10.6	Employment Agreement dated June 10, 1998 by and between the Company and the Pine Belt and William M. Renovich, Jr. (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed June 25, 1998).

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10.7	Bank Development Agreement dated June 19, 1998 by and among the Company and First National Bank of the Pine Belt (incorporated by reference to Exhibit 10.7 of the Company's Form 8-K filed June 25, 1998).
10.8	First Bancshares, Inc. 1997 Stock Option Plan as of March 18, 1997 (incorporated by reference to Exhibit 10.8 of the Company's Form 10-KSB for the fiscal year ended December 31, 1997 (33-94288)).
10.9	Agreement to Repurchase Stock by and among The First Bancshares, Inc., Johnson (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-2).
13	Audited Financial Statements of First Bancshares (incorporated by reference to Exhibit 13 of the Company's Form 10-KSB for the fiscal year ended March 31, 2006).
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 of the Company's Form 10-KSB for the fiscal year ended March 31, 1999).
23.1	Consent of T.E. Lott & Company
23.2	Consent of Watkins Ludlam Winter & Stennis, P.A. (included in Opinion)
24	Powers of Attorney - Included on the signature page of the Registration Statement