MIDSOUTH BANCORP INC
Form 10-Q
August 10, 2009

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

FORM 10-Q

xQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009
OR
¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-11826
MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana	72 –1020809
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices, including zip code)
(337) 237-8343
(Registrant’s telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ¨ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer ¨		Accelerated filer
x	Non-accelerated filer ¨	Small reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
YES ¨ NO x

As of July 31, 2009, there were 6,788,933 shares of the registrant's Common Stock, par value $0.10 per share, outstanding.

Table of Contents

Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Condition
(dollars in thousands, except per share data)

	June 30, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Cash and due from banks	$27,420	$24,753
Interest-bearing deposits in other banks	29	33
Federal funds sold	12,204	-
Time deposits in other banks	21,023	9,023
Securities available-for-sale, at fair value (cost of $201,653 at June 30, 2009 and $223,372 at December 31, 2008)	204,918	225,944
Securities held-to-maturity (estimated fair value of $3,759 at June 30, 2009 and $6,648 at December 31, 2008)	3,668	6,490
Other investments	4,429	4,309
Loans	596,114	608,955
Allowance for loan losses	(8,038)	(7,586)
Loans, net of allowance	588,076	601,369
Bank premises and equipment, net	39,580	40,580
Accrued interest receivable	5,002	5,356
Goodwill and intangibles	9,540	9,605
Cash surrender value of life insurance	4,458	4,378
Other assets	3,847	4,975
Total assets	$924,194	$936,815
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$185,332	$199,899
Interest bearing	577,320	566,805
Total deposits	762,652	766,704
Borrowings	45,809	75,876
Accrued interest payable	840	1,227
Junior subordinated debentures	15,465	15,465
Other liabilities	5,630	4,499
Total liabilities	830,396	863,771
Stockholders' Equity:		
Series A Preferred stock, no par value; 5,000,000 shares authorized, 20,000 shares issued and outstanding at June 30, 2009 and none at December 31, 2008	19,113	-
Common stock, $0.10 par value; 10,000,000 shares authorized, 6,788,885 issued and 6,618,220 outstanding at June 30, 2009 and December 31, 2008	679	679
Additional paid-in capital	53,052	52,097

Unearned ESOP shares	(273)	(18)
Accumulated other comprehensive income	2,155	1,697
Treasury stock – 170,665 shares at June 30, 2009 and December 31, 2008, at cost	(3,544)	(3,544)
Retained earnings	22,616	22,133
Total stockholders' equity	93,798	73,044
Total liabilities and stockholders' equity	$924,194	$936,815

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Earnings (unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Interest income:				
Loans, including fees	$10,294	$11,202	$20,693	$23,208
Securities, time deposits and other investments:				
Taxable	1,057	1,230	2,279	2,190
Nontaxable	1,097	1,029	2,237	2,070
Federal funds sold	48	366	81	671
Total interest income	12,496	13,827	25,290	28,139
Interest expense:				
Deposits	2,040	3,530	4,214	8,008
Borrowings	272	168	500	396
Junior subordinated debentures	262	290	528	622
Total interest expense	2,574	3,988	5,242	9,026
Net interest income	9,922	9,839	20,048	19,113
Provision for loan losses	2,100	855	3,100	2,055
Net interest income after provision for loan losses	7,822	8,984	16,948	17,058
Non-interest income:				
Service charges on deposits	2,577	2,563	4,965	4,932
ATM and debit card income	785	646	1,540	1,235
Other charges and fees	496	595	883	1,225
Total non-interest income	3,858	3,804	7,388	7,392
Non-interest expenses:				
Salaries and employee benefits	5,272	5,199	10,752	10,377
Occupancy expense	2,295	2,048	4,629	3,998
FDIC insurance	752	103	1,053	190
Other	2,813	3,743	5,964	6,822
Total non-interest expenses	11,132	11,093	22,398	21,387
Income before income taxes	548	1,695	1,938	3,063
Provision for income taxes	(197)	277	(40)	446
Net earnings	745	1,418	1,978	2,617
Dividends on preferred stock	299	-	576	-
Net earnings available to common shareholders	$446	$1,418	$1,402	$2,617
Earnings per share:				
Basic	$0.07	$0.22	$0.21	$0.40
Diluted	$0.07	$0.21	$0.21	$0.39

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity (unaudited)
For the Six Months Ended June 30, 2009
(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
Balance- January 1, 2009	-	-	6,788,885	$679	$52,097	$(18)	$1,697	$(3,544)	$22,133	$73,044
Net earnings	-	-	-	-	-	-	-	-	1,978	1,978
Net change in unrealized gains (losses) on securities available-for-sale, net of taxes	-	-	-	-	-	-	458	-	-	458
Comprehensive income	-	-	-	-	-	-	-	-	-	2,436
Issuance of Series A cumulative preferred stock and common stock warrants, net of issuance costs of $46,000	20,000	19,014	-	-	940	-	-	-	-	19,954
Dividends on preferred stock and accretion of common stock warrants	-	99	-	-	-	-	-	-	(576)	(477)
Dividends on common stock, $0.14 per share	-	-	-	-	-	-	-	-	(919)	(919)
Tax benefit resulting from exercise of stock options, net adjustment	-	-	-	-	(3)	-	-	-	-	(3)
Increase in ESOP obligation, net of repayments	-	-	-	-	-	(255)	-	-	-	(255)
Excess of market value over book value of ESOP shares	-	-	-	-	2	-	-	-	-	2
	-	-	-	-	16	-	-	-	-	16

Stock option expense										
Balance- June 30, 2009	20,000	$19,113	6,788,885	$679	$53,052	$(273)	$2,155	$(3,544)	$22,616	$93,798

See notes to unaudited consolidated financial statements.

-4-

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity (unaudited)
For the Six Months Ended June 30, 2008
(in thousands, except share and per share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
Balance- January 1, 2008	6,722,993	$672	$ 51,327	$(133)	$ 813	$(3,040)	$18,830	$68,469
Cumulative-effect adjustment for the adoption of EITF 06-4	-	-	-	-	-	-	(115)	(115)
Net earnings	-	-	-	-	-	-	2,617	2,617
Comprehensive income:								
Net change in unrealized losses on securities available-for-sale, net of taxes	-	-	-	-	(604)	-	-	(604)
Comprehensive income								2,013
Cash dividends on common stock, $0.14 per share	-	-	-	-	-	-	(921)	(921)
Exercise of stock options	65,891	7	469	-	-	-	-	476
Tax benefit resulting from exercise of stock options	-	-	202	-	-	-	-	202
Purchase of treasury stock	-	-	-	-	-	(465)	-	(465)
ESOP compensation expense	-	-	18	61	-	-	-	79
Stock option expense	-	-	34	-	-	-	-	34
Balance- June 30, 2008	6,788,884	$679	$ 52,050	$(72)	$ 209	$(3,505)	$20,411	$69,772

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	For the Six Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net earnings	$1,978	$2,617
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,867	1,581
Provision for loan losses	3,100	2,055
Provision for deferred taxes	(229)	(282)
Amortization of premiums on securities, net	361	177
Stock option expense	16	34
Net loss on sale of premises and equipment	4	193
Change in accrued interest receivable	354	533
Change in accrued interest payable	(388)	(142)
Other, net	2,818	(17)
Net cash provided by operating activities	9,881	6,749
Cash flows from investing activities:		
Net increase in interest earning deposits in other banks	(12,000)	(15,000)
Proceeds from maturities and calls of securities available-for-sale	52,884	35,881
Proceeds from maturities and calls of securities held-to-maturity	2,825	2,969
Proceeds from other investments	-	1,159
Purchases of securities available-for-sale	(31,524)	(66,619)
Purchases of other investments	(124)	(1,752)
Loan originations, net of repayments	9,426	1,098
Purchase of premises and equipment	(809)	(2,844)
Proceeds from sale of premises and equipment	1	6
Proceeds from sales of other real estate owned	14	-
Net cash provided by (used in) investing activities	20,693	(45,102)
Cash flows from financing activities:		
Change in deposits	(4,052)	76,566
Change in repurchase agreements	20,835	10,847
Change in federal funds purchased	(14,900)	-
Change in Federal Reserve Discount Window borrowings	(36,000)	-
Proceeds from FHLB advances	-	19,100
Repayments of FHLB advances	-	(23,500)
Net proceeds from the issuance of preferred stock	19,954	-
Purchase of treasury stock	-	(464)
Payment of dividends on preferred stock	(350)	-
Payment of dividends on common stock	(1,191)	(1,186)
Proceeds from exercise of stock options	-	476
Excess tax benefit from stock option exercises, net adjustment	(3)	202
Net cash (used in) provided by financing activities	(15,707)	82,041

Net increase in cash and cash equivalents	14,867	43,688
Cash and cash equivalents, beginning of period	24,786	30,873
Cash and cash equivalents, end of period	$39,653	$74,561
Supplemental information- Noncash items		
Accrued preferred stock dividends	128	-

See notes to unaudited consolidated financial statements.

MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
June 30, 2009
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company and its subsidiaries as of June 30, 2009 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2008 Annual Report and Form 10-K.

The results of operations for the six month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K for the year ended December 31, 2008.

Recent Accounting Pronouncements— The Financial Accounting Standards Board ("FASB") issued three FASB Staff Positions ("FSPs") in April 2009 that were effective for interim and annual reporting periods ending on or after June 15, 2009. FSP FAS 107-1 and APB 28-1 Interim Disclosures about Fair Value of Financial Instruments requires fair value disclosures about financial instruments in interim financial statements as well as disclosures about estimation methods and disclosure of changes in method from prior periods. FSP FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments ("OTTI FSP") create a new model for evaluating other-than-temporary impairments ("OTTI") in debt securities. The OTTI FSP requires an entity to record an OTTI if it intends to sell a debt instrument or if it cannot assert it is more likely than not that it will not have to sell the security before recovery. If the entity does not intend to sell the security but does not expect to recover the amortized cost basis, the amount of the impairment that is a result of credit related losses will be reported in earnings and the remaining impairment related to illiquidity will be reflected in other comprehensive income. FSP FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly requires companies, as they are estimating fair values for assets and liabilities that are subject to fair value measurement, to consider various factors to determine whether there has been a significant decrease in the volume and level of activity compared to normal market activity and to consider whether an observed transaction was not orderly based on the weight of available evidence. The adoption of the three FSPs did not have a material impact on the Company's financial position or results of operations.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arises from Contingencies, which amends and clarifies SFAS No. 141, Business Combinations, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective for fiscal years ending after December 15, 2009. Implementation of the FSP is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2009, the FASB issued statement of Financial Accounting Standards No. 165, Subsequent Events. This new standard applies to interim and annual financial periods ending after June 15, 2009. The statement establishes principles

-7-

Table of Contents

setting forth the period after the balance sheet date during which management shall evaluate events and transactions that may occur for potential recognition or disclosure in the financial statements.

The FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. The Codification will become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities and will supersede all non-SEC accounting and reporting standards. This statement is effective for financial statements ending after September 15, 2009 and is not expected to have a material impact on the Company's consolidated financial statements.

Reclassifications—Certain reclassifications have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2009. The reclassifications had no impact on stockholders equity or net income.

Table of Contents

2. Investment Securities

The portfolio of securities consisted of the following (in thousands):

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies	$23,542	$297	$12	$23,827
Obligations of state and political subdivisions	113,354	2,394	396	115,352
GSE Mortgage-backed securities	16,605	569	1	17,173
Collateralized mortgage obligations	47,902	773	189	48,486
Financial institution equity security	250	-	170	80
	$201,653	$4,033	$768	$204,918

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government agencies	$39,163	$584	$-	$39,747
Obligations of state and political subdivisions	116,811	2,350	548	118,613
GSE Mortgage-backed securities	19,433	234	6	19,661
Collateralized mortgage obligations	47,715	258	144	47,829
Financial institution equity security	250	-	156	94
	$223,372	$3,426	$854	$225,944

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$3,668	$91	$-	$3,759

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$6,490	$158	$-	$6,648

With the exception of one private-label collateralized mortgage obligation ("CMO") with a balance remaining of $193,000 at June 30, 2009, all of the Company's CMOs are government-sponsored enterprise securities.

The amortized cost and fair value of debt securities at June 30, 2009 by contractual maturity are shown below (in thousands). Except for mortgage-backed securities, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table of Contents

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$8,151	$8,235
Due after one year through five years	57,329	58,824
Due after five years through ten years	51,708	52,650
Due after ten years	19,708	19,470
Mortgage-backed securities and collateralized mortgage obligations	64,507	65,659
	$201,403	$204,838

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$576	$582
Due after one year through five years	2,547	2,600
Due after five years through ten years	545	577
	$3,668	$3,759

Details concerning investment securities with unrealized losses as of June 30, 2009 are as follows (in thousands):

	Securities with losses under 12 months		Securities with losses over 12 months		Total	
Available-for-sale:	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Government agencies	$5,389	$11	$-	$-	$5,389	$11
Obligations of state and political subdivisions	23,022	396	-	-	23,022	396
GSE Mortgage-backed securities	2	-	119	2	121	2
Collateralized mortgage obligations	5,403	148	350	41	5,753	189
Financial institution equity security	-	-	80	170	80	170
	$33,816	$555	$549	$213	$34,365	$768

Management evaluates each quarter whether unrealized losses on securities represent impairment that is other than temporary. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required to sell the securities. If such impairment is identified, based upon the intent to sell or the more likely than not threshold, the carrying amount of the security is reduced to fair value with a charge to earnings. Upon the result of the aforementioned review, management then reviews for potential other than temporary impairment based upon other qualitative factors. In making this evaluation, management considers changes in market rates relative to those available when the security was acquired, changes in market expectations about the timing of cash flows from securities that can be prepaid, performance of the debt security, and changes in the market's perception of the issuer's financial health and the security's credit quality. If determined that a debt security has incurred an other than temporary impairment, then the amount of credit related impairment is determined. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

The unrealized losses on debt securities at June 30, 2009 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Management identified no impairment related to credit quality. At June 30, 2009, management had no intent to sell the securities and determined it was more likely than not that the Company would not have to sell the securities and no other than temporary impairment was evident. No other than temporary impairment losses were recognized during the six months ended June 30, 2009.

Each quarter management evaluates whether the unrealized loss on its equity security represents impairment that is other than temporary. Management assesses the likelihood of recovery in fair value and the length of time over which a recovery would occur. Management also considers whether there is both the ability and intent to hold the impaired security until an anticipated recovery, in which case the impairment would be considered temporary. The equity security is an investment in a portfolio of common stocks of community bank holding companies. Management has deemed that the financial institution industry is in the midst of a recovery and anticipates that the equity security will recover the fair value over a foreseeable period of time.

Table of Contents

However, if the security does not begin to recover its fair value as anticipated in the near future, management's assessment may change.

Of the securities issued by U.S. Government agencies held by the Company at June 30, 2009, 1 of the 7 securities contained unrealized losses, while 37 out of 216 securities issued by state and political subdivisions contained unrealized losses. Of the mortgage-backed securities, 3 out of 48 contained unrealized losses. Of the collateralized mortgage obligations, 3 out of 20 contained unrealized losses. The only equity security held by the Company at June 30, 2009 contained an unrealized loss.

During the six months ended June 30, 2009 and the year ended December 31, 2008, the Company did not sell any securities. Securities with an aggregate carrying value of approximately $100,583,000 and $111,781,000 at June 30, 2009 and December 31, 2008, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

Table of Contents

3. Allowance for Loan Losses

A summary of the activity in the allowance for loan losses is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Balance, beginning of period	$ 7,801	$ 6,130	$ 7,586	$ 5,612
Provision for loan losses	2,100	855	3,100	2,055
Recoveries	60	76	131	85
Loans charged-off	(1,923)	(626)	(2,779)	(1,317)
Reclassifications	-	(149)	-	(149)
Balance, end of period	$ 8,038	$ 6,286	$ 8,038	$ 6,286

In the second quarter of 2008, approximately $149,000 of the allowance for loan loss was identified as a reserve for unfunded loan commitments. The reserve was classified as a liability in accordance with SFAS No. 5, Accounting for Contingencies, in the same period.

4. Earnings Per Common Share

Following is a summary of the information used in the computation of earnings per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income available to common shareholders	$446	$1,418	$1,402	$2,617
Weighted average number of common shares outstanding used in computation of basic earnings per common share	6,589	6,607	6,598	6,597
Effect of dilutive securities:				
Stock options	18	53	15	54
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	6,607	6,660	6,613	6,651

Options and warrants on 233,456 shares of common stock were not included in computed diluted earnings for the quarter and six months ended June 30, 2009 because the effect of these shares was anti-dilutive. Options on 30,844 shares of common stock were not included in computed diluted earnings for the quarter and six months ended June 30, 2008 because of the effect of these shares was anti-dilutive.

5. Declaration of Dividends

On January 22, 2009, the Company declared a $0.07 per share quarterly dividend for holders of common stock of record on March 18, 2009. The second quarter $0.07 per share dividend was declared on April 16, 2009 for shareholders of record on June 17, 2009.

The Company's ability to declare and pay dividends on its common stock is subject to first having paid all accrued cumulative preferred dividends that are due. For three years following the issuance of Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") to the U. S. Department of the Treasury (the "Treasury") on January 9, 2009, the Company may not increase its per share common stock dividend rate above what was declared in 2008 without the Treasury's consent, unless the Treasury has transferred all the senior preferred shares to third parties.

Table of Contents

6. Fair Value Measurement

The Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Effective January 1, 2009, the Company adopted FSP 157-2 for nonfinancial assets and liabilities. Upon adoption, the Company also groups its nonfinancial assets and liabilities carried at fair value on a recurring and nonrecurring basis into three levels of fair value.

These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis (in thousands):

Description	Assets / Liabilities Measured at Fair Value at June 30, 2009	Fair Value Measurements at June 30, 2009 using: Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government agencies	$ 23,827		$ 23,827	
Obligations of state and political subdivisions	$ 115,352		$ 115,352	
GSE Mortgage-backed securities	$ 17,173		$ 17,173	
Collateralized mortgage obligations	$ 48,486		$ 48,486	
Financial institution equity security	$ 80	$ 80		

Certain assets and liabilities are measured at fair value on a nonrecurring basis and are included in the table below. Impaired loans are level 2 assets at fair value less costs to sell measured using appraisals of the collateral from external parties less any prior liens. Other real estate owned are also level 2 assets measured using appraisals from external parties.

Fair Value Measurements at

Description	Assets / Liabilities Measured at Fair Value at June 30, 2009	June 30, 2009 using: Level 1	Level 2	Level 3
Impaired loans	$ 12,552		$ 12,552	
Other real estate owned	$ 829		$ 829	

-13-

Table of Contents

7. Disclosures About Fair Value of Financial Instruments

SFAS No. 107, Disclosure about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents—For cash on hand, amounts due from banks, federal funds sold, and interest-bearing deposits with original maturities less than 90 days the carrying amount is a reasonable estimate of fair value.

Time Deposits Held in Banks – Fair values for fixed-rate time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on deposits of similar terms of maturity.

Investment Securities—For securities, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using one of three pricing levels in accordance with SFAS No. 157. Refer to Note 6 - Fair Value Measurements for more detail on these fair value measurements.

Other Investments— Other investments include Federal Reserve Bank and Federal Home Loan Bank stock and other correspondent bank stocks which have no readily determined market value and are carried at cost.

Loans, net—For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for all other loans and leases are estimated based upon a discounted cash flow analysis, using interest rates currently being offered for loans and leases with similar terms to borrowers of similar credit quality. For impaired loans refer to Note 6 - Fair Value Measurements.

Cash Surrender Value of Life Insurance Policies—Fair value for life insurance cash surrender value is based on cash surrender values indicated by the insurance companies.

Deposits—The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. Fair values for fixed-rate time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on deposits of similar terms of maturity.

Borrowings—The fair value approximates the carrying value of repurchase agreements, federal funds purchased, Federal Home Loan Bank advances, and Federal Reserve Discount Window borrowings due to their short-term nature.

Junior Subordinated Debentures—For junior subordinated debentures that bear interest on a floating basis, the carrying amount approximates fair value. For junior subordinated debentures that bear interest on a fixed rate basis, the fair value is estimated using a discounted cash flow analysis that applies interest rates currently being offered on similar types of borrowings.

Commitments to Extend Credit, Commercial Letters of Credit—Off-balance sheet instruments (commitments to extend credit and commercial letters of credit) are generally short-term and at variable interest rates. Therefore, both the carrying value and estimated fair value associated with these instruments are immaterial.

Limitations—Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Table of Contents

The estimated fair values of the Company's financial instruments are as follows at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$39,653	$39,653	$24,786	$24,786
Time deposits held in banks	21,023	21,023	9,023	9,023
Securities available-for-sale	204,918	204,918	225,944	225,944
Securities held-to-maturity	3,668	3,759	6,490	6,648
Loans, net	588,075	594,042	601,369	604,829
Other investments	4,429	4,429	4,309	4,309
Cash surrender value of life insurance policies	4,458	4,458	4,378	4,378
Financial liabilities:				
Noninterest-bearing deposits	185,332	185,332	199,899	199,899
Interest-bearing deposits	577,320	578,528	566,805	568,306
Repurchase agreements	45,809	45,809	24,976	24,976
Federal funds purchased	-	-	14,900	14,900
FRB Discount Window	-	-	36,000	36,000
Junior subordinated debentures	15,465	12,724	15,465	15,395

8. Subsequent Events

SFAS No. 165, Subsequent Events, establishes principles setting forth the period after the balance sheet date during which management shall evaluate events and transactions that may occur for potential recognition or disclosure in the financial statements. For the purposes of this accounting standard, the Company has evaluated subsequent events through August 10, 2009.

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation.

MidSouth Bancorp, Inc. (“the Company") is a bank holding company headquartered in Lafayette, Louisiana that conducts substantially all of its business through its wholly-owned subsidiary bank MidSouth Bank, N.A (“the Bank”). MidSouth Bank, N.A. offers complete banking services to commercial and retail customers in south Louisiana and southeast Texas with 35 locations and more than 170 ATMs. The Company is community oriented and focuses primarily on offering commercial and consumer loan and deposit services to individuals, small businesses, and middle market businesses.

Following is management's discussion of factors that management believes are among those necessary for an understanding of the Company's financial statements. The discussion should be read in conjunction with the Company's consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto, and related Management’s Discussion and Analysis in the Company’s 10-K for the year ended December 31, 2008.

Forward Looking Statements

The Private Securities Litigation Act of 1995 provides a safe harbor for disclosure of information about a company’s anticipated future financial performance. This act protects a company from unwarranted litigation if actual results differ from management expectations. This management’s discussion and analysis reflects management’s current views and estimates of future economic circumstances, industry conditions, the Company’s performance, and financial results based on reasonable assumptions. A number of factors and uncertainties could cause actual results to differ materially from the anticipated results and expectations expressed in the discussion. These factors and uncertainties include, but are not limited to:

- changes in interest rates and market prices that could affect the net interest margin, asset valuation, and expense levels;
- changes in local economic and business conditions that could adversely affect customers and their ability to repay borrowings under agreed upon terms and/or adversely affect the value of the underlying collateral related to the borrowings;
- increased competition for deposits and loans which could affect rates and terms;
- changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of the earning assets;
- a deviation in actual experience from the underlying assumptions used to determine and establish the Allowance for Loan Losses (“ALL”);
- changes in the availability of funds resulting from reduced liquidity or increased costs;
- the timing and impact of future acquisitions, the success or failure of integrating operations, and the ability to capitalize on growth opportunities upon entering new markets;
- the ability to acquire, operate, and maintain effective and efficient operating systems;
- increased asset levels and changes in the composition of assets that would impact capital levels and regulatory capital ratios;
- loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels;
- changes in government regulations and accounting principles, policies, and guidelines applicable to financial holding companies and banking; and
- acts of terrorism, weather, or other events beyond the Company’s control.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. The Company's significant accounting policies are described in the notes to the consolidated financial statements included in Form 10-K for the year ended December 31, 2008. The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America ("GAAP") and general banking practices. The Company's most critical accounting policy relates to its allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. If the financial condition of its borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the Company's estimates would be updated and additional provisions for loan losses may be required (see Asset Quality).

Table of Contents

Another of the Company's critical accounting policies relates to its goodwill and intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized but evaluated for impairment annually. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings. The Company annually evaluates its goodwill for impairment as of December 31st of each year. Given the current instability of the economic environment, the Company's common stock traded below its stated book value during the first quarter of 2009, which was deemed a triggering event for interim analysis. Accordingly, the Company engaged a third party to assist management in assessing the current fair value of its common stock and performed a goodwill impairment analysis as of March 31, 2009. Upon review and analysis of the factors influencing value and utilizing the market value and investment value approaches, the Company determined the fair value of the common stock to be greater than stated and tangible book value, and therefore no impairment of the goodwill was recorded at the Company. During the second quarter of 2009, the Company's goodwill was not evaluated for impairment due to no triggering events having occurred during the quarter.

Compliance with accounting for stock-based compensation requires that management make assumptions including stock price volatility and employee turnover that are utilized to measure compensation expense. The fair value of the stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions. The Company recognized stock option expense of $16,702 for the grant-date fair value of stock options vested in the six months ended June 30, 2009. The Company did not grant any new stock options in the first half of 2009.

If the economic environment causes further instability in the market, it is reasonably possible that the methodology of the assessment of potential loan losses, goodwill impairment, and other fair value measurements could change in the near-term or could result in impairment going forward.

Results of Operations

Earnings Analysis

The Company reported net income available to common shareholders of $446,000 for the second quarter ended June 30, 2009, a decrease of $972,000 from net income available to common shareholders of $1,418,000 reported for the second quarter of 2008. Diluted earnings per share for the second quarter of 2009 were $0.07 per share, a decrease of 66.7% from the $0.21 per share for the second quarter of 2008. Beginning the first quarter of 2009, the Company recorded dividends on its Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") issued to the U. S. Department of the Treasury on January 9, 2009 under the Capital Purchase Plan. Dividends recorded on the Series A Preferred Stock totaled $299,000 for the second quarter of 2009 and $576,000 for the six months ended June 30, 2009.

For the six months ended June 30, 2009, net income available to common shareholders totaled $1,402,000, a 46.4% decrease from earnings of $2,617,000 for the first six months of 2008. Of the $1,215,000 decrease, $576,000 is related to dividends on the Series A Preferred Stock. Diluted earnings per share were $0.21 for the first six months of 2009, compared to $0.39 for the first six months of 2008.

Second quarter 2009 earnings were impacted by a $2.1 million provision recorded for loan losses, compared to $855,000 in the second quarter of 2008 and $1.0 million recorded in the first quarter of 2009. Deterioration in the performance of a $5.7 million national participation credit in the Company's Baton Rouge market prompted a $1.1 million charge-off on the credit in the second quarter of 2009 and an increase of $200,000 in specific reserves allocated to the credit within the Allowance for Loan Losses (“ALL”). The remainder of the $2.1 million provision covered approximately $430,000 in charged-off loans associated with another Baton Rouge credit relationship and $333,000 in other credits charged-off in the second quarter of 2009. During the second quarter of 2009, the Company made management changes in the Baton Rouge market to strengthen credit underwriting and the monitoring of existing loans within that market.

Quarterly revenues for the Company, defined as net interest income and non-interest income, increased $137,000, or 1.0%, for the second quarter of 2009 compared to the second quarter of 2008. The slight improvement in revenues resulted primarily from a $1,414,000 decrease in interest expense on deposits and borrowings, which was mostly offset by a $1,331,000 decrease in interest income on earning assets. Non-interest income increased $54,000 due to a $138,000 increase in ATM/debit card income that was partially offset by decreases in mortgage banking fees and income from a third party investment advisory firm. Non-interest expense increased $39,000 in prior year quarterly comparison, as expense reductions in several categories offset a $649,000 increase in FDIC premiums. During the second quarter of 2009, the Company accrued $421,000 for a special assessment as required by the FDIC and also incurred an increase in the regular assessment rate.

Table of Contents

Second quarter 2009 results were positively impacted by $197,000 in tax benefit compared to $277,000 in tax provisions recorded for the second quarter of 2008. The $197,000 in quarterly tax benefit resulted from lower pretax profits combined with sustained tax exempt income levels and certain federal tax credits.

Net Interest Income

The primary source of earnings for the Company is the difference between interest earned on loans and investments (earning assets) and interest paid on deposits and other liabilities (interest-bearing liabilities). Changes in the volume and mix of earning assets and interest-bearing liabilities combined with changes in market rates of interest greatly affect net interest income.

Net interest income totaled $9,922,000 for the second quarter of 2009, an increase of 0.8%, or $83,000, from the $9,839,000 reported for the second quarter of 2008. The improvement in net interest income resulted primarily from a decrease of $1.4 million in interest expense which offset a decrease of $1.3 million in interest income. The impact to interest income of a $32.4 million increase in the average volume of loans, from $563.6 million at June 30, 2008 to $596.0 million at June 30, 2009, was partially offset by a 106 basis point reduction in the average yield on loans in quarterly comparison. The average yields on loans declined from 7.99% in the second quarter of 2008 to 6.93% in the second quarter of 2009 as New York Prime ("Prime") fell 175 basis points, from 5.00% to 3.25% during the same period. The average volume of investment securities, including federal funds sold and other interest-earning assets, decreased $50.5 million in quarterly comparison, while the taxable-equivalent yield increased 20 basis points, from 4.08% to 4.28%. The volume decrease occurred primarily in federal funds sold and other interest-earning assets as deposits declined during the second half of 2008, following an influx of commercial money market deposits in the first quarter of 2008.

The decrease in interest expense in quarterly comparison resulted from a 71 basis point decrease in the average rate paid on interest-bearing liabilities combined with a $51.8 million decrease in the average volume of interest-bearing liabilities in quarterly comparison. The decrease in interest-bearing liabilities was primarily in commercial platinum money market deposits and certificates of deposit, partially offset by an increase in the average volume of repurchase agreements. The volume and rate decreases associated with interest-bearing liabilities, partially offset by the $32.3 million increase in the average volume of loans, primarily contributed to a 14 basis point improvement in the taxable-equivalent net interest margin, from 4.78% for the second quarter of 2008 to 4.92% for the second quarter of 2009.

In year-to-date comparison, net interest income increased $935,000 as interest expense decreased $3,784,000, offsetting a $2,849,000 decline in interest income. Interest expense decreased primarily due to a 108 basis point reduction in the average rate paid on interest-bearing liabilities, from 2.75% at June 30, 2008 to 1.67% at June 30, 2009. Additionally, the average volume of interest-bearing liabilities decreased $30.3 million in year-to-date comparison. Interest income on average earning assets decreased primarily as the result of a 127 basis point decline in the average yield earned on loans, from 8.24% at June 30, 2008 to 6.97% at June 30, 2009. An average volume increase of $32.0 million in loans partially offset the impact of lower yields. As a result, the taxable-equivalent net interest margin improved 20 basis points, from 4.83% for the six months ended June 30, 2008 to 5.03% for the six months ended June 30, 2009.

The average rate paid on the Company's junior subordinated debentures decreased 72 basis points from second quarter of 2008 to second quarter of 2009 on the $8.2 million of such debentures issued in the fourth quarter of 2004. The debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at June 30, 2009 was 3.11%. The debentures mature on September 20, 2034 and, under certain circumstances, are subject to repayment on September 20, 2009 or thereafter. In February 2001, the Company issued $7.2 million of junior subordinated debentures. The debentures carry a fixed interest rate of 10.20% and mature on February 22, 2031.

Table of Contents

Table 1
Consolidated Average Balances, Interest and Rates
(in thousands)

	Three Months Ended June 30,					
	2009			2008		
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Average Yield/Rate
Assets						
Investment securities1						
Taxable	$93,010	$1,001	4.30 %	$95,039	$1,044	4.39 %
Tax exempt2	115,933	1,554	5.36 %	106,791	1,458	5.46 %
Other investments	4,404	29	2.63 %	4,283	32	2.99 %
Total investments	213,347	2,584	4.84 %	206,113	2,534	4.92 %
Federal funds	25,826	18	0.28 %	64,536	334	2.05 %
Loans						
Commercial and real estate	486,222	7,936	6.55 %	451,181	8,753	7.80 %
Installment	109,733	2,358	8.62 %	112,462	2,449	8.76 %
Total loans3	595,955	10,294	6.93 %	563,643	11,202	7.99 %
Time deposits in other banks	10,144	56	2.21 %	29,174	185	2.55 %
Total earning assets	845,272	12,952	6.15 %	863,466	14,255	6.64 %
Allowance for loan losses	(7,593)			(5,767)		
Nonearning assets	89,199			88,306		
Total assets	$926,878			$946,005		
Liabilities and stockholders' equity						
NOW, money market, and savings	$435,659	$1,162	1.07 %	$493,266		