MIDSOUTH BANCORP INC
Form 10KSB
March 27, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2001

OR

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

Commission file number 2-91000-FW
MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana (State or other jurisdiction of incorporation or organization)	72-1020809 (I.R.S. Employer Identification No.)
102 Versailles Blvd., Lafayette, LA (Address of principal executive offices)	70501 (Zip Code)
Registrant's telephone number, including area code	(337) 237-8343

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	American Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB __X__

Total revenues for the year ended December 31, 2001 were $21,447,960.

As of February 28, 2002, the aggregate market value of the voting stock held by non-affiliates of the Registrant, calculated by reference to the closing sale price of MidSouth's common stock on the AMEX was $19,691,510. As of February 28, 2002 there were outstanding 2,901,142 shares of MidSouth Bancorp, Inc. common stock, $.10 par value, which stock is the only class of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of Shareholders to be held May 21, 2002 -

(Part III)

PART I

ITEM 1 - Business.

The Company

MidSouth Bancorp, Inc. ("MidSouth") is a Louisiana corporation registered as a bank holding company under the Bank Holding Company Act of 1956. Its operations are conducted through, and its primary asset is, MidSouth Bank, N.A. (the "Bank"), a wholly-owned subsidiary. MidSouth is currently liquidating a second subsidiary, Financial Services of the South, Inc. (the "Finance Company"). MidSouth, the Bank and the Finance Company are referred to collectively herein as "the Company."

The Bank

The Bank is a national banking association domiciled in Lafayette, Louisiana. The Bank provides a complete range of commercial and retail banking services primarily to professional, commercial and industrial customers in its market area. These services include, but are not limited to, interest bearing and non-interest bearing checking accounts, investment accounts, credit card services and issuance of cashier's checks, United States Savings Bonds and travelers checks. The Bank is an U.S. government depository. The Bank is also a member of the Electronic Data Services ("EDS") network through Comerica Bank, Dallas, Texas which provides its customers with automatic teller machine services through the GulfNet, Cirrus and Plus networks. Membership in the Community Cash Network provides MidSouth's customers with additional access throughout the Greater New Orleans area with no surcharge. The Bank serves most types of lending demands including short-term business loans, other commercial, industrial and agricultural loans, real estate construction and mortgage loans and installment loans. The Bank operates at the eighteen locations described below under "Item 2 - Properties."

Employees

As of December 31, 2001, the Bank employed 205 full-time equivalent employees and the Finance Company had no employees. MidSouth has no employees who are not also employees of the Bank. Through the Bank, employees receive employee benefits, which include an employee stock ownership plan, a 401-K plan and life, health and disability insurance plans. MidSouth considers the relationships of the Bank with their employees to be very good.

Competition

The Bank faces keen competition in its market area not only with other commercial banks, but also with savings and loan associations, credit unions, finance companies, mortgage companies, leasing companies, insurance companies, money market mutual funds and brokerage houses. In the Lafayette Parish area there are twenty-one state chartered or national banks and savings banks. Several of the banks in Lafayette are subsidiaries of holding companies or branches of banks having far greater resources than the Company. In addition, the Company expects increased competition as a result of the Gramm-Leach-Bliley Act signed into law on November 12, 1999. As discussed below, under "Recent Legislation - Gramm-Leach-Bliley Act," banks will be able to offer their customers a wider range of financial products and services. The legislation provides the ability to banks, securities firms, insurance companies, and financial technology companies to more readily combine.

Louisiana state banks may establish branch offices statewide, and national banks domiciled in Louisiana have the power to establish branches to the full extent that Louisiana banks may establish branches. Since 1989, Louisiana has allowed bank holding companies domiciled in any state of the United States to acquire Louisiana banks and bank holding companies, if the state in which the bank holding company is domiciled allows Louisiana banks and bank holding companies the same opportunities.

In 1994, the Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") was enacted. Among other things, the Interstate Act (i) allows bank holding companies to acquire a bank located in any state, subject to certain limitations that may be imposed by the state, (ii) allows banks to merge across state lines, and (iii) permits banks to establish branches outside their state of domicile if expressly permitted by the law of the state in which the branch is to be located. In 1995, the Louisiana legislature enacted legislation permitting out of state bank holding companies after June 1, 1997 to convert any banks owned in Louisiana into branches of out of state banks owned by such holding companies, subject to certain limitations.

Supervision and Regulation - Bank Holding Companies

General. As a bank holding company, MidSouth is subject to the Bank Holding Company Act of 1956 (the "Act") and is supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Act requires MidSouth to file periodic reports with the Federal Reserve Board and subjects MidSouth to examination by the Federal Reserve Board. The Act also requires MidSouth to obtain the prior approval of the Federal

Reserve Board for acquisitions of substantially all of the assets of any bank or bank holding company or more than 5% of the voting shares of any bank or bank holding company. The Act prohibits MidSouth from engaging in any business other than banking or bank-related activities specifically allowed by the Federal Reserve Board and from engaging in certain tie-in arrangements in connection with any extension of credit or provision of any property or services.

Recent Legislation - Gramm-Leach-Bliley Act. This financial services reform legislation proves for three basic changes: 1) repeal of certain provisions of the Glass Steagall Act to permit commercial banks to affiliate with investment banks, 2) modification of the Bank Holding Company Act of 1956 to permit companies that own commercial banks to engage in any type of financial activity, and 3) allows subsidiaries of banks to engage in a broad range of financial activities beyond those permitted for banks themselves. As a result, banks, securities firms, and insurance companies will be able to combine much more readily. The legislation also includes important provisions regarding privacy of customer information; increased access to the Federal Home Loan Bank System by community banks; and significant changes to the requirements of the Community Reinvestment Act.

Under provisions of the legislation, two new types of regulated entities are authorized to engage in a broad range of financial activities much more extensive that those of standard holding companies. A "financial holding company" can engage in all newly-authorized activities and is simply a bank holding company whose depository institutions are well-capitalized, well-managed, and has a CRA rating of "satisfactory" or better. A "financial subsidiary" is a direct subsidiary of a bank that satisfies the same conditions as a `financial holding company"plus several more. The "financial subsidiary" can engage in most of the newly-authorized activities, which are defined as securities, insurance, merchant banking/equity investment, "financial in nature," and "complementary" activities.

The legislation also defines the concept of "functional supervision", meaning similar activities should be regulated by the same regulator, with the Federal Reserve Board serving as an "umbrella" supervisory authority over bank and financial holding companies.

This legislation creates new opportunities for the Company to offer expanded services to its customer base in the future, however the Company has not yet determined the nature of the expanded services or when the services will be offered.

Capital Adequacy Requirements. The Federal Reserve Board monitors the capital adequacy of bank holding companies through the use of a combination of risk-based capital guidelines and leverage ratios. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of a company's assets. Certain off-balance sheet items, such as letters of credit and unused lines of credit, are also assigned risk-weights and included in the risk-based capital calculations. The guidelines require a minimum ratio of total qualifying capital to total risk-weighted assets of 8.0%, of which 4.0% must be in the form of Tier 1 capital. At December 31, 2001, the Company's ratios of Tier 1 and total capital to risk-weighted assets were 12.06% and 13.20%, respectively. MidSouth's leverage ratio (Tier 1 capital to total average adjusted assets) was 8.02% at December 31, 2001. All three regulatory capital ratios for the Company exceeded regulatory minimums at December 31, 2001.

Supervision and Regulation - National Banks

General. As a national banking association, the Bank is supervised and regulated by the U. S. Comptroller of the Currency (its primary regulatory authority), the Federal Reserve Board and the Federal Insurance Deposit Corporation. Under Section 23A of the Federal Reserve Act, the Bank is restricted in extending credit to or making investments in MidSouth and other affiliates defined in that act. National banks are required by the National Bank Act to adhere to branch banking laws applicable to state banks in the states in which they are located and are limited as to powers, locations and other matters of applicable federal law.

Capital Adequacy Requirements. A national bank is subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct material effect on a bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, a bank must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. As of December 31, 2001, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain a minimum of total risk-based capital and Tier 1 capital to risk-weighted assets of 10% and 6%, respectively, and a minimum leverage ratio of 5%. All three regulatory capital ratios for the Bank exceeded these minimums at December 31, 2001.

Governmental Policies

The operations of financial institutions may be affected by legislative changes and by the policies of various regulatory authorities. In particular, bank holding companies and their subsidiaries are affected by the credit policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve Board to implement its objectives are open market operations in United States Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements on bank deposits. These policies have significant effects on the overall growth and profitability of the loan, investment and deposit portfolios. The general effects of such policies upon future operations cannot be accurately predicted.

ITEM 2 - Properties.

The Bank leases its principal executive and administrative offices and principal banking facility in Lafayette, Louisiana under a ten year lease expiring November 30, 2004. The Bank has six other banking offices in Lafayette, Louisiana, three in New Iberia and one banking office in each of Breaux Bridge, Cecilia, Jeanerette, Opelousas, Morgan City, Jennings, Lake Charles, and Sulphur Louisiana. Thirteen of these offices are owned and five are leased. MidSouth also leases space for a loan production office opened in Thibodaux, Louisiana during the fourth quarter of 1999.

ITEM 3 - Legal Proceedings.

The Bank has been named as a defendant in various legal actions arising from normal business activities in which damages of various amounts are claimed. While the amount, if any, of ultimate liability with respect to such matters cannot be determined, management believes, after consulting with legal counsel, that any such liability will not have a material adverse effect on the Company's consolidated financial position, results of operation, or cash flows.

ITEM 4 - Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of MidSouth's security holders in the fourth quarter of 2001.

Executive Officers of the Registrant

C. R. Cloutier, 54 - President, Chief Executive Officer and Director of MidSouth and the Bank

Karen L. Hail, 48 - Executive Vice President of the Bank and Chief Financial Officer, and Secretary and Treasurer of MidSouth and the Bank

Donald R. Landry, 45 - Senior Vice President and Senior Loan Officer of the Bank

Jennifer S. Fontenot, 47 - Senior Vice President of the Bank

Dwight Utz, 48 - Senior Vice President of the Bank since 2001; prior to his employment at the Bank, Mr. Utz was a Corporate Vice President for PNC Bank Corporation in Pittsburgh, Pennsylvania.

Teri S. Stelly, 42 - Senior Vice President and Controller of MidSouth and the Bank since 1997; Vice President and Controller of MidSouth and the Bank since 1992.

David L. Majkowski, 51 - Vice President and Loan review officer of the Bank since 1997; Loan review officer of the Bank since 1995; prior to his employment at the Bank, Mr. Majkowski was Compliance Officer for St. Martin Bank and Trust, St. Martinville, Louisiana for 15 years.

All executive officers of the Company are appointed for one year terms expiring at the first meeting of the Board of Directors after the annual shareholders meeting next succeeding his or her election and until his or her successor is elected and qualified.

PART II

ITEM 5 - Market for Registrant's Common Stock and Related Stockholder Matters.

On April 19, 1993 MidSouth's common stock was accepted for listing on the American Stock Exchange, Inc./Emerging

Company Marketplace. Effective August 1, 1995, the Company's common stock and its preferred stock has been listed on the regular American Stock Exchange, Inc. ("AMEX") under the symbols MSL and MSL.pr, respectively. On August 1, 2001, MidSouth completed the redemption of its Series A Preferred Stock. Only 3,527 shares had not been converted as of July 26, 2001, the final day for converting. The remaining 3,527 preferred shares were redeemed at a Redemption Price of $14.33 per share. As of December 31, 2001, there were 632 common shareholders of record. The high and low sales prices for the past eight quarters are provided in the Selected Quarterly Financial Data tables included with this filing under Item 7 and is incorporated herein by reference.

MidSouth's first common stock dividend was paid at a rate of $.06 per share on October 2, 1995 to shareholders of record on September 18, 1995, and quarterly cash dividends of $.06 per common share were paid through the second quarter of 1998. Following a three for two stock split paid on August 31, 1998, MidSouth began paying quarterly cash dividends of $.05 per common share. It is the intention of the Board of Directors of MidSouth to continue paying quarterly dividends on the common stock at a rate of $.05 per share. The Company's ability to pay dividends is described in Item 7 below under the heading "Liquidity - Dividends" and in Note 12 of notes to the Company's consolidated financial statements.

On August 31, 1998, MidSouth effected a three for two stock split by way of a stock dividend to its common shareholders of record on July 31, 1998. The stock split increased the common shares outstanding at the time from 1,611,377 to 2,417,195. The conversion rate of the preferred stock was adjusted to 2.998 due to the stock split.

On August 6, 1997, MidSouth declared a 12 1/2% stock dividend payable to shareholders of record on August 27, 1997. The conversion rate on the Preferred Stock was adjusted to 1.999 shares of MidSouth Common Stock for each share of Preferred Stock converted.

FIVE-YEAR SUMMARY OF SELECTED
CONSOLIDATED FINANCIAL DATA

	Year Ended December 31,				
	2001	2000	1999	1998	1
Gross interest income	$26,424,027	$24,449,115	$21,072,733	$18,755,764	$15,7
Interest expense	(10,408,926)	(9,787,165)	(7,888,351)	(6,931,556)	(5,8

Net interest income	16,015,101	14,661,950	13,184,382	11,824,208	9,8
Provision for loan losses	(2,176,224)	(897,038)	(906,950)	(999,950)	(8
Other operating income	5,432,859	4,582,995	3,980,496	3,486,937	2,8
Other expenses	(15,462,472)	(14,501,566)	(12,740,307)	(11,023,245)	(9,5
Income before income taxes	3,809,264	3,846,341	3,517,621	3,287,950	2,3
Provision for income taxes	(866,105)	(951,204)	(867,417)	(842,167)	(5
Net Income	2,943,159	2,895,137	2,650,204	2,445,783	1,7
Preferred stock dividend requirement (FN1)	(52,751)	(246,024)	(131,582)	(148,971)	(1
Net income available to common stockholders	$2,890,408	$2,649,113	$2,518,622	$2,296,812	$1,6
Basic earnings per share	$1.08	$1.07	$1.03	$0.95	
Diluted earnings per share	$1.00	$0.95	$0.90	$0.83	
Total loans	$214,390,121	$204,584,860	$170,468,733	$155,477,263	$130,
Total assets	363,779,863	346,373,433	276,723,841	249,818,268	217,1
Total deposits	330,577,458	319,547,205	251,690,206	229,924,302	200,0
Cash dividends on common stock	547,966	501,443	492,415	434,334	3
Long-term obligations (FN2)	8,431,000	4,650,968	3,459,097	3,503,668	3,1
Selected ratios:					
Loans to assets	58.93%	59.06%	61.60%	62.24%	
Loans to deposits	64.85%	64.02%	67.73%	67.62%	
Deposits to assets	90.87%	92.26%	90.95%	92.04%	
Return on average assets	0.85%	0.98%	0.97%	1.04%	
Return on average common equity	14.04%	17.70%	17.45%	19.16%	