

MIDSOUTH BANCORP INC  
Form 10-Q  
August 09, 2007

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

**FORM 10-Q**

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

For the quarterly period ended **June 30, 2007**

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**

(State of other jurisdiction of incorporation or  
organization)

**72-1020809**

(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 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  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)

YES  NO

As of August 3, 2007, there were 6,269,675 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.



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Consolidated Statements of Condition**

|  | <b>June 30, 2007</b><br><b>(unaudited)</b> | <b>December 31, 2006</b><br><b>(audited)</b> |
|--|--|--|
| <b>Assets</b>  |  |  |
| Cash and due from banks  | \$ 25,169,137                              | \$ 30,564,604                                |
| Interest bearing deposits in banks and federal funds sold  | 71,592                                     | 26,839,737                                   |
| Total cash and cash equivalents  | 25,240,729                                 | 57,404,341                                   |
| Securities available-for-sale, at fair value (cost of \$188,468,197 at June 30, 2007 and \$181,973,949 at December 31, 2006)   | 185,625,793                                | 180,673,747                                  |
| Securities held-to-maturity (estimated fair value of \$12,307,081 at June 30, 2007 and \$16,166,937 at December 31, 2006)  | 12,132,033                                 | 15,900,611                                   |
| Loans, net of allowance for loan losses of \$5,181,861 at June 30, 2007 and \$4,976,857 at December 31, 2006   | 540,265,492                                | 494,068,845                                  |
| Other investments  | 3,026,749                                  | 2,501,150                                    |
| Accrued interest receivable  | 5,676,944                                  | 5,491,730                                    |
| Bank premises and equipment, net   | 33,476,690                                 | 30,609,332                                   |
| Goodwill and intangibles   | 9,852,536                                  | 9,957,364                                    |
| Cash surrender value of life insurance   | 4,143,945                                  | 4,068,116                                    |
| Other assets   | 4,585,264                                  | 4,346,450                                    |
| Total assets   | \$ 824,026,175                             | \$ 805,021,686                               |
| <b>Liabilities and Stockholders' Equity</b>  |  |  |
| Liabilities:   |  |  |
| Deposits:  |  |  |
| Non-interest bearing   | \$ 176,525,599                             | \$ 182,595,931                               |
| Interest bearing   | 540,366,691                                | 533,583,610                                  |
| Total deposits   | 716,892,290                                | 716,179,541                                  |
| Securities sold under repurchase agreements  | 5,511,649                                  | 4,474,786                                    |
| Federal funds purchased  | 15,300,000                                 | -  |
| Federal Home Loan Bank advances  | 4,925,000                                  | 5,650,000                                    |
| Accrued interest payable   | 1,101,711                                  | 1,196,822                                    |
| Junior subordinated debentures   | 15,465,000                                 | 15,465,000                                   |
| Other liabilities  | 2,133,197                                  | 2,312,061                                    |
| Total liabilities  | 761,328,847                                | 745,278,210                                  |
| Stockholders' Equity:  |  |  |
| Common stock, \$0.10 par value- 10,000,000 shares authorized; 6,713,259 and 6,673,743 issued and 6,580,789 and 6,548,838 outstanding at June 30, 2007 and December 31, | 671,326                                    | 667,374                                      |

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|   |                |                |
|---|----------------|----------------|
| 2006, respectively  |                |                |
| Capital surplus   | 50,904,295     | 50,500,162     |
| Unearned ESOP shares  | (192,853)      | (251,259)      |
| Accumulated other comprehensive income  | (1,875,986)    | (858,133)      |
| Treasury stock-132,470 shares at June 30, 2007 and 124,905 shares at December 31, 2006, at cost | (2,705,147)    | (2,518,411)    |
| Retained earnings   | 15,895,693     | 12,203,743     |
| Total stockholders' equity  | 62,697,328     | 59,743,476     |
| Total liabilities and stockholders' equity  | \$ 824,026,175 | \$ 805,021,686 |

See notes to unaudited consolidated financial statements.

Table of Contents**MidSouth Bancorp, Inc. and Subsidiaries**  
**Consolidated Statements of Earnings (unaudited)**

|   | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|---|-----------------------------|---------------|---------------------------|---------------|
|   | 2007                        | 2006          | 2007                      | 2006          |
| <b>Interest income:</b>   |                             |               |                           |               |
| Loans, including fees   | \$ 11,984,285               | \$ 10,318,152 | \$ 22,978,150             | \$ 19,282,516 |
| Securities and other investments  |                             |               |                           |               |
| Taxable   | 1,078,540                   | 1,235,222     | 2,080,620                 | 2,176,565     |
| Nontaxable  | 1,044,546                   | 843,063       | 2,060,684                 | 1,566,777     |
| Federal funds sold  | 195,219                     | 294,694       | 625,147                   | 700,586       |
| Total interest income   | 14,302,590                  | 12,691,131    | 27,744,601                | 23,726,444    |
| <b>Interest expense:</b>  |                             |               |                           |               |
| Deposits  | 4,600,338                   | 4,031,515     | 9,282,568                 | 7,335,428     |
| Securities sold under repurchase agreements, federal funds purchased and advances | 116,982                     | 28,883        | 192,703                   | 48,915        |
| Junior subordinated debentures  | 342,749                     | 335,452       | 672,975                   | 649,601       |
| Total interest expense  | 5,060,069                   | 4,395,850     | 10,148,246                | 8,033,944     |
| Net interest income   | 9,242,521                   | 8,295,281     | 17,596,355                | 15,692,500    |
| Provision for loan losses   | 350,000                     | 300,000       | 350,000                   | 620,000       |
| Net interest income after provision for loan losses                               | 8,892,521                   | 7,995,281     | 17,246,355                | 15,072,500    |
| <b>Non-interest income:</b>   |                             |               |                           |               |
| Service charges on deposits   | 2,489,392                   | 2,173,817     | 4,795,575                 | 4,100,415     |
| Credit life insurance   | 59,361                      | 45,536        | 95,872                    | 88,874        |
| Other charges and fees  | 1,136,325                   | 852,301       | 2,040,767                 | 1,724,964     |
| Total non-interest income   | 3,685,078                   | 3,071,654     | 6,932,214                 | 5,914,253     |
| <b>Non-interest expenses:</b>   |                             |               |                           |               |
| Salaries and employee benefits  | 4,714,570                   | 3,936,764     | 9,501,134                 | 7,722,515     |
| Occupancy expense   | 1,615,685                   | 1,498,753     | 3,187,187                 | 2,860,208     |
| Other   | 2,915,161                   | 2,633,582     | 5,636,145                 | 4,982,522     |
| Total non-interest expenses   | 9,245,416                   | 8,069,099     | 18,324,466                | 15,565,245    |
| Income before income taxes  | 3,332,183                   | 2,997,836     | 5,854,103                 | 5,421,508     |
| Provision for income taxes  | 837,284                     | 762,082       | 1,412,961                 | 1,367,234     |
| Net earnings  | \$ 2,494,899                | \$ 2,235,754  | \$ 4,441,142              | \$ 4,054,274  |
| <b>Earnings per share:</b>  |                             |               |                           |               |
| Basic   | \$ 0.38                     | \$ 0.34       | \$ 0.68                   | \$ 0.62       |

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|         |    |      |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|----|------|
| Diluted | \$ | 0.38 | \$ | 0.34 | \$ | 0.67 | \$ | 0.61 |
|---------|----|------|----|------|----|------|----|------|

See notes to unaudited consolidated financial statements.

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**MidSouth Bancorp, Inc. and Subsidiaries**  
**Consolidated Statement of Stockholders' Equity (unaudited)**  
**For the Six Months Ended June 30, 2007**

|  | Common Stock |            | Capital<br>Surplus | ESOP<br>Obligation | Unrealized<br>Losses on<br>Securities<br>AFS, net | Treasury<br>Stock | Retained<br>Earnings | Total         |
|--|--------------|------------|--------------------|--------------------|---|-------------------|----------------------|---------------|
|  | Shares       | Amount     |                    |                    |   |                   |                      |               |
| Balance- January 1, 2007   | 6,673,743    | \$ 667,374 | \$ 50,500,162      | \$ (251,259)       | \$ (858,133)                                      | \$ (2,518,411)    | \$ 12,203,743        | \$ 59,743,479 |
| Net earnings   | -            | -          | -                  | -                  | -   | -                 | 4,441,142            | 4,441,142     |
| Comprehensive income:  |              |            |                    |                    |   |                   |                      |               |
| Net change in unrealized losses on securities available-for-sale, net of taxes | -            | -          | -                  | -                  | (1,017,853)                                       | -                 | -                    | (1,017,853)   |
| Comprehensive income   |              |            |                    |                    |   |                   |                      | 3,423,289     |
| Dividends on common stock, \$0.12 per share                                    | -            | -          | -                  | -                  | -   | -                 | (749,192)            | (749,192)     |
| Exercise of stock options  | 39,516       | 3,952      | 183,314            | -                  | -   | -                 | -                    | 187,260       |
| Tax benefit resulting from exercise of stock options                           | -            | -          | 109,221            | -                  | -   | -                 | -                    | 109,221       |
| Purchase of treasury stock   | -            | -          | -                  | -                  | -   | (186,736)         | -                    | (186,736)     |
| ESOP obligation, net of repayments   | -            | -          | -                  | 58,406             | -   | -                 | -                    | 58,406        |
| Excess of market value over book value of ESOP shares released, net adjustment | -            | -          | 62,500             | -                  | -   | -                 | -                    | 62,500        |
| Stock option expense   | -            | -          | 49,098             | -                  | -   | -                 | -                    | 49,098        |
| Balance- June 30, 2007   | 6,713,259    | \$ 671,326 | \$ 50,904,295      | \$ (192,853)       | \$ (1,875,986)                                    | \$ (2,705,147)    | \$ 15,895,693        | \$ 62,697,322 |

See notes to unaudited consolidated financial statements.





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**MidSouth Bancorp, Inc. and Subsidiaries**  
**Consolidated Statement of Stockholders' Equity (unaudited)**  
**For the Six Months Ended June 30, 2006**

|  | Common Stock |            | Capital<br>Surplus | ESOP<br>Obligation | Unrealized                          | Treasury<br>Stock | Retained<br>Earnings | Total         |
|--|--------------|------------|--------------------|--------------------|-------------------------------------|-------------------|----------------------|---------------|
|  | Shares       | Amount     |                    |                    | Losses on<br>Securities<br>AFS, net |                   |                      |               |
| Balance- January<br>1, 2006  | 6,258,089    | \$ 625,809 | \$ 41,784,960      | \$ (47,194)        | \$ (1,032,694)                      | \$ (1,229,213)    | \$ 13,083,900        | \$ 53,185,566 |
| Net earnings   | -            | -          | -                  | -                  | -                                   | -                 | 4,054,274            | 4,054,274     |
| Comprehensive<br>income:   |              |            |                    |                    |                                     |                   |                      |               |
| Net change in<br>unrealized losses<br>on securities<br>available-for-sale,<br>net of taxes | -            | -          | -                  | -                  | (1,894,852)                         | -                 | -                    | (1,894,852)   |
| Comprehensive<br>income  |              |            |                    |                    |                                     |                   |                      | 2,159,422     |
| Dividends on<br>common stock,<br>\$0.06 per share  | -            | -          | -                  | -                  | -                                   | -                 | (595,294)            | (595,294)     |
| Exercise of stock<br>options   | 79,799       | 7,980      | 275,420            | -                  | -                                   | -                 | -                    | 283,400       |
| Tax benefit<br>resulting from<br>exercise of stock<br>options                              | -            | -          | 491,439            | -                  | -                                   | -                 | -                    | 491,439       |
| Purchase of<br>treasury stock  | -            | -          | -                  | -                  | -                                   | (484,735)         | -                    | (484,735)     |
| ESOP obligation,<br>net of repayments  | -            | -          | -                  | (260,664)          | -                                   | -                 | -                    | (260,664)     |
| Excess of market<br>value over book<br>value of ESOP<br>shares released,<br>net adjustment | -            | -          | 25,000             | -                  | -                                   | -                 | -                    | 25,000        |
| Stock option<br>expense  | -            | -          | 13,333             | -                  | -                                   | -                 | -                    | 13,333        |
| Balance- June 30,<br>2006  | 6,337,888    | \$ 633,789 | \$ 42,590,152      | \$ (307,858)       | \$ (2,927,546)                      | \$ (1,713,948)    | \$ 16,542,880        | \$ 54,817,466 |

See notes to unaudited consolidated financial statements.



Table of Contents**MidSouth Bancorp, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows (unaudited)**

|   | <b>For the Six Months Ended June 30,</b> |               |
|---|--|---------------|
|   | <b>2007</b>                              | <b>2006</b>   |
| <b>Cash flows from operating activities:</b>                                      |  |               |
| Net earnings  | \$ 4,441,142                             | \$ 4,054,274  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |               |
| Depreciation and amortization   | 1,366,041                                | 1,331,188     |
| Provision for loan losses   | 350,000                                  | 620,000       |
| Deferred income tax benefit   | (206,973)                                | (2,640)       |
| Amortization of premiums on securities, net                                       | 309,072                                  | 365,293       |
| Net gain on sale of premises and equipment  | (4,833)                                  | -             |
| Net loss on sale of other real estate owned                                       | 20,274                                   | 8,911         |
| Impairment on premises and equipment  | 13,637                                   | -             |
| Stock option compensation expense   | 49,098                                   | 13,333        |
| Change in accrued interest receivable   | (185,214)                                | (331,842)     |
| Change in accrued interest payable  | (95,111)                                 | 69,063        |
| Other, net  | 371,623                                  | (618,761)     |
| Net cash provided by operating activities   | 6,428,756                                | 5,508,819     |
| <b>Cash flows from investing activities:</b>                                      |  |               |
| Proceeds from maturities and calls of securities held-to-maturity                 | 3,777,200                                | 2,099,650     |
| Proceeds from maturities and calls of securities available-for-sale               | 15,788,135                               | 13,802,944    |
| Purchases of securities available-for-sale  | (22,600,250)                             | (65,962,354)  |
| Purchases of other investments  | (525,425)                                | (340,350)     |
| Loan originations, net of repayments  | (46,739,120)                             | (47,120,831)  |
| Purchase of premises and equipment  | (4,192,460)                              | (6,132,967)   |
| Proceeds from sale of premises and equipment                                      | 55,085                                   | -             |
| Proceeds from sales of other real estate owned                                    | 347,716                                  | 147,450       |
| Net cash used in investing activities   | (54,089,119)                             | (103,506,458) |
| <b>Cash flows from financing activities:</b>                                      |  |               |
| Change in deposits  | 712,749                                  | 79,166,172    |
| Change in repurchase agreements   | 1,036,863                                | 1,064,741     |
| Change in federal funds purchased   | 15,300,000                               | -             |
| Proceeds from FHLB advances   | 12,288,000                               | -             |
| Repayments of FHLB advances   | (13,013,000)                             | -             |
| Purchase of treasury stock  | (186,736)                                | (484,735)     |
| Payment of dividends on common stock  | (937,612)                                | (890,556)     |
| Proceeds from exercise of stock options   | 187,266                                  | 283,400       |
| Excess tax benefit from stock option exercises                                    | 109,221                                  | 491,439       |
| Net cash provided by financing activities   | 15,496,751                               | 79,630,461    |
| Net decrease in cash and cash equivalents   | (32,163,612)                             | (18,367,178)  |

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|  |    |            |    |            |
|--|----|------------|----|------------|
| Cash and cash equivalents, beginning of period |    | 57,404,341 |    | 52,437,002 |
| Cash and cash equivalents, end of period       | \$ | 25,240,729 | \$ | 34,069,824 |

See notes to unaudited consolidated financial statements.

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**MidSouth Bancorp, Inc. and Subsidiaries**  
**Notes to Interim Consolidated Financial Statements**  
**June 30, 2007**  
**(Unaudited)**

***I. 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, 2007 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 2006 Annual Report and Form 10-K.

The results of operations for the six month period ended June 30, 2007 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. With the exception of the adoption of FASB Interpretation No. 48 discussed herein, 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, 2006.

***Recent Accounting Pronouncements***—In June 2006, the FASB issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the financial statements. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. Any difference between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the unrecognized benefit. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in a tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit. The new interpretation was effective for the Company for the six months ended June 30, 2007. The adoption of this new accounting principle did not have a significant impact on the Company's financial position, results of operations, or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for the fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not anticipate the adoption of this new accounting principle to have a material effect on its financial

position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet made a determination if it will elect to apply the options available in SFAS No. 159.

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In September 2006, the FASB ratified the consensus the EITF reached regarding EITF No.06-5, *Accounting for Purchases of Life Insurance — Determining the Amount that Could Be Realized in Accordance with FASB Technical Bulletin 85-4* (“EITF 06-5”). The EITF concluded that a policy holder should consider any additional amounts included in the contractual terms of the life insurance policy in determining the “amount that could be realized under the insurance contract.” For group policies with multiple certificates or multiple policies with a group rider, the Task Force also tentatively concluded that the amount that could be realized should be determined at the individual policy or certificate level, i.e., amounts that would be realized only upon surrendering all of the policies or certificates would not be included when measuring the assets. This interpretation is effective for the Company beginning in fiscal year 2007. The adoption of EITF 06-5 has not nor does the Company believe it will have a material impact on its financial position, results of operations, or cash flows.

**Reclassifications**—Certain reclassifications have been made to the prior years’ financial statements in order to conform to the classifications adopted for reporting in 2007.

**2. Employee Stock Compensation Plan**

In May of 2007, the stockholders of the Company approved the 2007 Omnibus Incentive Compensation Plan to provide incentives and awards for directors, officers, and employees of the Company and its subsidiaries. “Awards” as defined in the Plan includes, with limitations, stock options (including restricted stock options), stock appreciation rights, performance shares, stock awards and cash awards, all on a stand-alone, combination, or tandem basis. Options constitute both incentive stock options and non-qualified stock options. A total of 8% of the Company’s common shares outstanding can be granted under the Plan. The options have a term of ten years and vest 20% each year on the anniversary date of the grant. The 2007 Omnibus Incentive Plan replaces the 1997 Stock Incentive Plan, which expired in February of 2007.

**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, |          |
|------------------------------|-----------------------------|----------|---------------------------|----------|
|                              | 2007                        | 2006     | 2007                      | 2006     |
| Balance, beginning of period | \$ 4,900                    | \$ 4,652 | \$ 4,977                  | \$ 4,355 |
| Provision for loan losses    | 350                         | 300      | 350                       | 620      |
| Recoveries                   | 24                          | 113      | 42                        | 222      |
| Loans charged-off            | (92)                        | (178)    | (187)                     | (310)    |
| Balance, end of period       | \$ 5,182                    | \$ 4,887 | \$ 5,182                  | \$ 4,887 |

**4. Earnings Per Common Share**

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

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2007                        | 2006     | 2007                      | 2006     |
| Net earnings  | \$ 2,495                    | \$ 2,236 | \$ 4,441                  | \$ 4,054 |
| Weighted average number of common shares outstanding used in computation of basic earnings per common share | 6,571                       | 6,508    | 6,563                     | 6,491    |
| Effect of dilutive securities:  |                             |          |                           |          |
| Stock options   | 76                          | 127      | 81                        | 125      |



|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share | 6,647 | 6,635 | 6,644 | 6,616 |
|---|-------|-------|-------|-------|

### ***5. Declaration of Dividends***

On February 14, 2007, the Company declared a \$.06 per share quarterly dividend for holders of record on March 14, 2007. The second quarter \$.06 per share dividend was declared on May 9, 2007 for shareholders of record on June 13, 2007. On July 18, 2007, the Company declared a 5% stock dividend and an increase in the quarterly dividend from \$.06 to \$.07 effective for the following quarter. The share data and equity accounts for the periods presented on the consolidated balance sheet and consolidated statement of equity reflect proforma adjustment for the effect of the 5% stock dividend payable on October 23, 2007 to shareholders of record on September 21, 2007.

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

MidSouth Bancorp, Inc. ("the Company") is a two-bank holding company that conducts substantially all of its business through its wholly-owned subsidiary banks (the "Banks"), MidSouth Bank, N.A. ("MidSouth LA"), headquartered in Lafayette, Louisiana and MidSouth Bank ("MidSouth TX"), headquartered in Beaumont, Texas. 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, 2006.

*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 which 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, 2006. 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.*

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.

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A third critical accounting policy relates to stock-based compensation and the Company's adoption of the provisions of SFAS No. 123R, *Share-Based Payment* (Revised 2004), on a modified basis, on January 1, 2006. The Company had previously adopted SFAS No. 123 on January 1, 2005. Among other things, SFAS No. 123R eliminates the ability to account for stock-based compensation using the intrinsic value based method of accounting and requires that such transactions be recognized as compensation expense in the income statement based on the fair market value on the date of the grant. SFAS No. 123R further 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 \$49,048 for the grant-date fair value of stock options vested in the quarter ended June 30, 2007. In the second quarter of 2007, the Company did not grant any new stock options.

*Results of Operations*

Second quarter 2007 earnings totaled \$2,494,899, an 11.6% increase over earnings of \$2,235,754 for the same period in 2006. Revenues for the Company, defined as net interest income and non-interest income, increased \$1,560,664 for the second quarter of 2007 compared to the second quarter of 2006. A \$1,176,317 increase in non-interest expenses attributed primarily to franchise expansion offset the improvement in revenues. Diluted earnings per share were \$0.38 for the second quarter of 2007, compared to \$0.34 per share for the second quarter of 2006. Earnings per share data have been adjusted to reflect a five-for-four (25%) stock dividend distributed on October 23, 2006 and a one-for-twenty (5%) stock dividend declared on July 18, 2007 for all shareholders of record as of September 21, 2007.

Return on average equity was 16.21% for the second quarter of 2007 compared to 16.48% for the second quarter of 2006. The leverage capital ratio was 8.63% at June 30, 2007 compared to 8.32% at June 30, 2006.

Net interest income before provision for loan losses for the second quarter of 2007 increased 11.4% to \$9,242,521 compared to \$8,295,281 for the second quarter of 2006. The improvement in net interest income was driven by strong loan growth in both the Louisiana and Texas markets. Net interest margin, on a fully taxable-equivalent basis, was 5.21% in the second quarter of 2007, an improvement of 21 basis points from 5.00% in the second quarter of 2006.

Earnings for the first six months of 2007 totaled \$4,441,142, an increase of 9.5% from the \$4,054,274 reported earnings for the first six months of 2006. Basic earnings per share were \$0.68 for the first half of 2007 as compared to the \$0.62 per share for the first half of 2006. Diluted earnings per share were \$0.67 and \$0.61, respectively.

For the six months ended June 30, 2007, total consolidated assets increased \$19.0 million, or 2.4%, from \$805.0 million at the year end 2006 to \$824.0 million at the end of the second quarter of 2007. Total loans grew \$46.4 million, or 9.3%, from \$499.0 million at December 31, 2006 to \$545.4 million at June 30, 2007, primarily in construction and commercial loans. Total deposits remained relatively constant at \$716.9 million at June 30, 2007 compared to \$716.2 million at December 31, 2006.

Nonperforming assets, including loans 90 days or more past due, decreased \$550,000, from \$2.3 million at December 31, 2006 to \$1.8 million at June 30, 2007. As a percentage of total assets, nonperforming assets were 0.21% and 0.29% for June 30, 2007 and December 31, 2006, respectively. Net charge-offs to total loans were 0.03% for the second quarter of 2007.

Continued strong credit quality ratios, supported by management's most recent analysis of the ALL, indicated that the ALL-to-total loans ratio of 0.95% was appropriate at June 30, 2007. Second quarter 2007 provision expense for loan losses totaled \$350,000 compared to \$300,000 in provision expense recorded for the second quarter of 2006.



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*Earnings Analysis*

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.

The Company's net interest margin on a taxable-equivalent basis, which is net income as a percentage of average earning assets, was 5.21% for the three months ended June 30, 2007, up 21 basis points from 5.00% for the three months ended June 30, 2006. For the six months ended June 30, 2007, the taxable-equivalent net interest margin increased 14 basis points, from 4.90% at June 30, 2006 to 5.04% at June 30, 2007. Tables 1 through 4 following this discussion analyze the changes in taxable-equivalent net interest income for the three and six months ended June 30, 2007 and 2006.

In quarterly comparison, average earning assets increased \$51.6 million, or 7.4%, from \$692.9 million in June 2006 to \$744.5 million in June 2007. The average yield on earning assets improved 39 basis points, from 7.55% at June 30, 2006 to 7.94% at June 30, 2007. The average volume of loans increased \$60.9 million, or 13.1%, and loan yields increased 24 basis points, from 8.88% for the quarter ended June 30, 2006 to 9.12% for the quarter ended June 30, 2007. Yields on loans improved as Prime rate loans adjusted to a 25 basis point increase at the end of the second quarter of 2006, adjusting rates earned on the portion of MidSouth Bancorp's loan portfolio that floats with changes in Prime. The average taxable-equivalent yield on investment securities increased 27 basis points, from 4.78% to 5.05%, respectively. The average volume of investment securities remained relatively constant and the average volume of federal funds sold decreased \$8.9 million in quarterly comparison. The mix of average earning assets improved, with average loans at 71% of average earning assets at June 30, 2007, compared to 67% at June 30, 2006.

The Company's strong demand deposit mix, defined as all deposits except Certificates of Deposit ("CDs"), reflected improvement in average volume from \$564.0 million, or 82.3%, of average total deposits at June 30, 2006, to \$606.3 million, or 83.6%, of average total deposits at June 30, 2007. The average volume of Certificates of Deposit ("CDs") decreased \$2.2 million, from \$120.9 million at June 30, 2006 to \$118.8 million at June 30, 2007 and represented 17.2% of total deposits at June 30, 2006 compared to 16.4% at June 30, 2007. The higher volume of demand deposits reflects the Company's retail strategy of developing long-term banking relationships with depositors. That strategy, along with competitive market rates, yielded growth in the Company's Platinum Money Market and Platinum Checking accounts. The competitive rates on the Platinum accounts contributed to the 21 basis point increase in the average rate paid on average interest-bearing deposits between the two quarters compared, from 3.17% at June 30, 2006 to 3.38% at June 30, 2007.

The average rate paid on the Company's junior subordinated debentures increased 20 basis points from second quarter of 2006 to second quarter of 2007 due to increases in the floating rate paid on the \$8.2 million of such debentures issued in the third quarter of 2004 to partially fund the Lamar Bancshares (now MidSouth TX) acquisition. The debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at June 30, 2007 was 7.86%. 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.

The impact of the quarterly changes in yield and volume of the earning assets and interest-bearing liabilities discussed above resulted in an increase of \$1.0 million to taxable-equivalent net interest income from June 30, 2006 to June 30,

2007.

In year-to-date comparison, taxable-equivalent net interest income increased \$2.1 million, driven by a \$58.8 million increase in average loan volume and a 47 basis point increase in the average yield on loans. The impact of the loan volume and yield increases was partially offset by a \$59.4 million increase in the average volume of interest-bearing liabilities and a 42 basis point increase in the average rate paid on interest-bearing liabilities. Non interest-bearing deposits remained strong at 24.7% of average total deposits for the six months ended June 30, 2007.

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

|   | Three Months Ended June 30, |          |                       |                   |          |                       |
|---|-----------------------------|----------|-----------------------|-------------------|----------|-----------------------|
|   | 2007                        |          |                       | 2006              |          |                       |
|   | Average<br>Volume           | Interest | Average<br>Yield/Rate | Average<br>Volume | Interest | Average<br>Yield/Rate |
| <b>Assets</b>   |                             |          |                       |                   |          |                       |
| Investment securities and interest bearing deposits <sup>1</sup>        |                             |          |                       |                   |          |                       |
| Taxable   | \$ 88,485                   | \$ 1,056 | 4.77%                 | \$ 107,978        | \$ 1,220 | 4.52%                 |
| Tax exempt <sup>2</sup>   | 111,606                     | 1,478    | 5.29%                 | 92,611            | 1,190    | 5.14%                 |
| Other investments   | 2,544                       | 23       | 3.62%                 | 2,343             | 15       | 2.58%                 |
| Total investments   | 202,635                     | 2,557    | 5.05%                 | 202,932           | 2,425    | 4.78%                 |
| Federal funds sold and securities purchased under agreements to resell  | 15,088                      | 195      | 5.18%                 | 23,983            | 295      | 4.93%                 |
| <b>Loans</b>  |                             |          |                       |                   |          |                       |
| Commercial and real estate  | 419,343                     | 9,623    | 9.21%                 | 370,362           | 8,344    | 9.04%                 |
| Installment   | 107,471                     | 2,361    | 8.81%                 | 95,592            | 1,974    | 8.28%                 |
| Total loans <sup>3</sup>  | 526,814                     | 11,984   | 9.12%                 | 465,954           | 10,318   | 8.88%                 |
| Total earning assets  | 744,537                     | 14,736   | 7.94%                 | 692,869           | 13,038   | 7.55%                 |
| Allowance for loan losses   | (4,908)                     |          |                       | (4,600)           |          |                       |
| Nonearning assets   | 76,913                      |          |                       | 73,025            |          |                       |
| Total assets  | \$ 816,542                  |          |                       | \$ 761,294        |          |                       |
| <b>Liabilities and stockholders' equity</b>                             |                             |          |                       |                   |          |                       |
| NOW, money market, and savings  |                             |          |                       |                   |          |                       |
|   | \$ 426,320                  | \$ 3,370 | 3.17%                 | \$ 388,789        | \$ 3,004 | 3.10%                 |
| Certificates of deposits  | 118,764                     | 1,230    | 4.15%                 | 120,943           | 1,028    | 3.41%                 |
| Total interest bearing deposits   | 545,084                     | 4,600    | 3.38%                 | 509,732           | 4,032    | 3.17%                 |
| Federal funds purchased and securities sold under repurchase agreements | 9,228                       | 116      | 5.04%                 | 2,724             | 29       | 4.25%                 |
| FHLB advances   | 108                         | 1        | 5.13%                 | -                 | -        | -                     |
| Junior subordinated debentures  | 15,465                      | 343      | 8.90%                 | 15,465            | 335      | 8.70%                 |
| Total interest bearing liabilities                                      | 569,885                     | 5,060    | 3.56%                 | 527,921           | 4,396    | 3.34%                 |
| Demand deposits   | 179,991                     |          |                       | 175,163           |          |                       |
| Other liabilities   | 4,228                       |          |                       | 3,802             |          |                       |
| Stockholders' equity  | 62,438                      |          |                       | 54,408            |          |                       |
| Total liabilities and stockholders' equity                              | \$ 816,542                  |          |                       | \$ 761,294        |          |                       |



|   |          |       |          |       |
|---|----------|-------|----------|-------|
| Net interest income and net interest spread | \$ 9,676 | 4.38% | \$ 8,642 | 4.21% |
| Net yield on interest earning assets        |          | 5.21% |          | 5.00% |

<sup>1</sup> Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.

<sup>2</sup> Interest income of \$423,413 for 2007 and \$346,605 for 2006 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a 34% tax rate.

<sup>3</sup> Interest income includes loan fees of \$940,729 for 2007 and \$1,109,115 for 2006. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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**Table 2**  
**Consolidated Average Balances, Interest and Rates**  
(in thousands)

|   | Six Months Ended June 30, |          |                       |                   |          |                       |
|---|---------------------------|----------|-----------------------|-------------------|----------|-----------------------|
|   | 2007                      | 2007     |                       | 2006              |          | 2006                  |
|   | Average<br>Volume         | Interest | Average<br>Yield/Rate | Average<br>Volume | Interest | Average<br>Yield/Rate |
| <b>Assets</b>   |                           |          |                       |                   |          |                       |
| Investment securities and interest bearing deposits <sup>4</sup>        |                           |          |                       |                   |          |                       |
| Taxable   | \$ 86,938                 | \$ 2,036 | 4.68%                 | \$ 96,870         | \$ 2,137 | 4.41%                 |
| Tax exempt <sup>5</sup>   | 110,736                   | 2,913    | 5.26%                 | 87,151            | 2,209    | 5.07%                 |
| Other investments   | 2,528                     | 44       | 3.48%                 | 2,185             | 39       | 3.57%                 |
| Total investments   | 200,202                   | 4,993    | 4.99%                 | 186,206           | 4,385    | 4.71%                 |
| Federal funds sold and securities purchased under agreements to resell  | 24,268                    | 625      | 5.19%                 | 30,629            | 701      | 4.61%                 |
| <b>Loans</b>  |                           |          |                       |                   |          |                       |
| Commercial and real estate  | 407,350                   | 18,319   | 9.07%                 | 359,801           | 15,333   | 8.59%                 |
| Installment   | 106,266                   | 4,659    | 8.84%                 | 95,043            | 3,950    | 8.38%                 |
| Total loans <sup>6</sup>  | 513,616                   | 22,978   | 9.02%                 | 454,844           | 19,283   | 8.55%                 |
| Total earning assets  | 738,086                   | 28,596   | 7.81%                 | 671,679           | 24,369   | 7.32%                 |
| Allowance for loan losses   | (4,929)                   |          |                       | (4,480)           |          |                       |
| Nonearning assets   | 76,904                    |          |                       | 72,149            |          |                       |
| Total assets  | \$ 810,061                |          |                       | \$ 739,348        |          |                       |
| <b>Liabilities and stockholders' equity</b>                             |                           |          |                       |                   |          |                       |
| NOW, money market, and savings  | \$ 422,965                | \$ 6,839 | 3.26%                 | \$ 368,388        | \$ 5,339 | 2.92%                 |
| Certificates of deposits  | 120,490                   | 2,444    | 4.09%                 | 120,970           | 1,996    | 3.33%                 |
| Total interest bearing deposits   | 543,455                   | 9,283    | 3.44%                 | 489,358           | 7,335    | 3.02%                 |
| Securities sold under repurchase agreements and federal funds purchased | 6,800                     | 165      | 4.89%                 | 2,383             | 49       | 4.14%                 |
| FHLB advances   | 847                       | 28       | 6.67%                 | -                 | -        | -                     |
| Junior subordinated debentures  | 15,465                    | 672      | 8.76%                 | 15,465            | 650      | 8.47%                 |
| Total interest bearing liabilities                                      | 566,567                   | 10,148   | 3.61%                 | 507,206           | 8,034    | 3.19%                 |
| Demand deposits   | 178,038                   |          |                       | 174,392           |          |                       |
| Other liabilities   | 4,045                     |          |                       | 3,691             |          |                       |
| Stockholders' equity  | 61,411                    |          |                       | 54,059            |          |                       |
|   | \$ 810,061                |          |                       | \$ 739,348        |          |                       |

Total liabilities and  
stockholders' equity

|  |           |       |           |       |
|--|-----------|-------|-----------|-------|
| Net interest income and<br>net interest spread | \$ 18,448 | 4.20% | \$ 16,335 | 4.13% |
| Net yield on interest<br>earning assets        |           | 5.04% |           | 4.90% |

<sup>4</sup> Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.

<sup>5</sup> Interest income of \$851,837 for 2007 and \$642,068 for 2006 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a 34% tax rate.

<sup>6</sup> Interest income includes loan fees of \$1,719,204 for 2007 and \$1,770,425 for 2006. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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**Table 3**  
**Changes in Taxable-Equivalent Net Interest Income**  
(in thousands)

|   | Three Months Ended<br>June 30, 2007 Compared to June 30,<br>2006 |                                     |        |
|---|--|-------------------------------------|--------|
|   | Total<br>Increase<br>(Decrease)                                  | Change<br>Attributable To<br>Volume | Rates  |
| Taxable-equivalent earned on:   |  |                                     |        |
| Investment securities and interest bearing deposits                     |  |                                     |        |
| Taxable   | \$ (164)   | \$ (230)                            | \$ 66  |
| Tax exempt  | 287  | 250                                 | 37     |
| Other investments   | 8  | 1                                   | 7      |
| Federal funds sold and securities purchased under agreement to resell   | (100)  | (114)                               | 14     |
| Loans, including fees   | 1,667  | 1,379                               | 288    |
| Total   | \$ 1,698   | \$ 1,286                            | \$ 412 |
| Interest paid on:   |  |                                     |        |
| Interest bearing deposits   |  |                                     |        |
|   | \$ 568   | \$ 289                              | \$ 279 |
| Federal funds purchased and securities sold under repurchase agreements | 87   | 81                                  | 6      |
| FHLB advances   | 1  | 1                                   | -      |
| Junior subordinated debentures  | 8  | -                                   | 8      |
| Total   | \$ 664   | \$ 371                              | \$ 293 |
| Taxable-equivalent net interest income                                  | \$ 1,034   | \$ 915                              | \$ 119 |

**Table 4**  
**Changes in Taxable-Equivalent Net Interest Income**  
(in thousands)

|   | Six Months Ended<br>June 30, 2007 Compared to June 30,<br>2006 |                                     |          |
|---|--|-------------------------------------|----------|
|   | Total<br>Increase<br>(Decrease)                                | Change<br>Attributable To<br>Volume | Rates    |
| Taxable-equivalent earned on:   |  |                                     |          |
| Investment securities and interest bearing deposits                   |  |                                     |          |
| Taxable   | \$ (101)   | \$ (228)                            | \$ 127   |
| Tax exempt  | 704  | 617                                 | 87       |
| Other investments   | 5  | 6                                   | (1)      |
| Federal funds sold and securities purchased under agreement to resell | (76)   | (157)                               | 81       |
| Loans, including fees   | 3,695  | 2,588                               | 1,107    |
| Total   | \$ 4,227   | \$ 2,826                            | \$ 1,401 |
| Interest paid on:   |  |                                     |          |
| Interest bearing deposits   |  |                                     |          |
|   | \$ 1,948   | \$ 861                              | \$ 1,087 |

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|   |          |          |          |
|---|----------|----------|----------|
| Federal funds purchased and securities sold under repurchase agreements | 116      | 106      | 10       |
| FHLB advances   | 28       | 28       | -        |
| Junior subordinated debentures  | 22       | -        | 22       |
| Total   | \$ 2,114 | \$ 995   | \$ 1,119 |
| Taxable-equivalent net interest income                                  | \$ 2,113 | \$ 1,831 | \$ 282   |

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Non-Interest Income

Excluding Securities Transactions

Non-interest income for the second quarter of 2007 totaled \$3,685,078, an increase of \$613,424, or 20.0%, to \$3,071,654 for the second quarter of 2006. In year-to-date comparison, non-interest income totaled \$6,932,214 for the six months ended June 30, 2007, a \$1,017,961 increase or 17.2% over non-interest income of \$5,914,253 reported for the first half of 2006. The increases in quarterly and year-to-date comparison resulted primarily from increases in fee income from service charges on deposit accounts, which include non-sufficient funds (“NSF”) fees. Income from service charges on deposit accounts increased from June 2006 to June 2007 in three-month comparison by \$315,575. The total number of demand deposit accounts increased approximately 2,150, or 4.7%, from 45,400 accounts at June 30, 2006 to 47,550 at June 30, 2007, with the majority of the increase in consumer checking accounts. Additionally, the Company increased the NSF processing fee from \$23.47 per NSF item processed to \$24.47 per item effective July 1, 2006. Despite the increase in the fee, the \$24.47 per item charge remains lower than most competitors’ charges within the Company’s markets.

Income from other charges and fees increased \$284,024 for the three months ended June 30, 2007 as compared to June 30, 2006, primarily due to a \$106,134 increase in ATM and debit card processing fees. The increase resulted from a higher volume of ATM and debit card transactions processed. Additionally, mortgage loan processing fees increased \$79,569 and income from a third party investment advisory firm increased \$51,447 in quarterly comparison.

Non-interest Expenses

Non-interest expenses increased \$1,176,317 in quarterly comparison and \$2,759,221 in year-to-date comparison, primarily due to increased salaries and employee benefits costs. The number of full-time equivalent employees increased from 349 at June 30, 2006 to 398 at June 30, 2007 as a result of franchise expansion and recruitment of talented leaders to support corporate growth initiatives. Additional increases were recorded in occupancy expense, professional fees; education and travel costs; and other growth-related expenses.

Included in professional fees recorded for the Company are premiums associated with FDIC insurance assessments. For several years, as a well-capitalized financial institution, the Company has not been required to pay FDIC insurance premiums, but has been required to pay FICO (the Financing Corporation) assessments that currently total approximately \$21,000 a quarter, or \$84,000 annually. FICO has assessment authority to collect funds from FDIC-insured institutions sufficient to pay interest on non-callable thrift bonds issued between 1987 and 1989, which expire with the bonds in 2019. Beginning this year, the FDIC resumed deposit insurance assessments and also issued one-time credits against the assessments to qualifying institutions. The Company qualified for a one-time credit totaling approximately \$240,000, which offsets the new FDIC assessment through the third quarter of 2007. Beginning in the fourth quarter of 2007, the Company expects to record approximately \$86,000 in FDIC assessments, in addition to the \$21,000 in FICO assessments. Based on current deposit growth projections, FDIC and FICO assessments for 2008 will average approximately \$127,000 per quarter, or \$508,000 for the year.

*Analysis of Statement of Condition*

Consolidated assets totaled \$824.0 million at June 30, 2007, up \$19.0 million from \$805.0 million at December 31, 2006. The increase resulted primarily from loan growth of \$46.4 million. A \$32.2 million reduction in cash and cash equivalents necessitated a \$14.6 million increase in overnight and short-term borrowings to fund the loan growth. Deposits totaled \$716.9 million at the end of the second quarter of 2007 and were held to a \$0.7 million increase from December 31, 2006, primarily due to deposit fluctuations in commercial accounts related to tax payments remitted during the second quarter of 2007.



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Total loans grew 9.3%, from \$499.0 million at year-end 2006 to \$545.4 million at June 30, 2007, with most of the growth added in the second quarter. The loan growth occurred primarily in the Company's commercial and construction loan portfolios as reflected in Table 5.

**Table 5**  
**Composition of Loans**  
(in thousands)

|   | <b>June 30, 2007</b> | <b>December 31, 2006</b> |
|---|----------------------|--------------------------|
| Commercial, financial, and agricultural | \$ 176,093           | \$ 155,098               |
| Lease financing receivable              | 9,362                | 7,902                    |
| Real estate - mortgage                  | 200,966              | 192,583                  |
| Real estate - construction              | 75,809               | 64,126                   |
| Installment loans to individuals        | 82,514               | 78,613                   |
| Other                                   | 703                  | 724                      |
| <b>Total loans</b>                      | <b>\$ 545,447</b>    | <b>\$ 499,046</b>        |

Securities available-for-sale totaled \$185.6 million at June 30, 2007, up \$4.9 million from \$180.7 million at December 31, 2006. The portfolio of securities held-to-maturity decreased \$3.8 million, from \$15.9 million at December 31, 2006 to \$12.1 million at June 30, 2007, due to maturities and calls within that portfolio. Investment purchases slowed in the second quarter of 2007, as cash flows from these calls and maturities were used to fund loans.

Bank premises and equipment, net of accumulated depreciation, increased \$2.9 million for the first six months of 2007 and reflected the impact of the Company's continued expansion.

*Liquidity*

Liquidity is the availability of funds to meet operational cash flow requirements and to meet contractual obligations as they become due. The Banks' primary liquidity needs involve their ability to accommodate customers' demands for deposit withdrawals as well as their requests for credit. Liquidity is deemed adequate when sufficient cash to meet these needs can be promptly raised at a reasonable cost to the Banks. Liquidity is provided primarily by three sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, and borrowing lines with correspondent banks. The Banks' core deposits are their most stable and important source of funding. Further, the low variability of the core deposit base lessens the need for liquidity. Cash deposits at other banks, federal funds sold, principal payments received on loans and mortgage-backed securities, and maturities of investment securities provide additional primary sources of asset liquidity for the Banks. The Banks also have significant borrowing capacity with the FHLB of Dallas, Texas and borrowing lines with other correspondent banks. At June 30, 2007, the Banks had \$20.2 million in net borrowings with the FHLB and a correspondent bank.

At the parent company level, cash is needed primarily to meet interest payments on the junior subordinated debentures and pay dividends on common stock. An \$8.2 million issuance of junior subordinated debentures was completed on September 20, 2004, the proceeds of which were used to partially fund the MidSouth TX merger. The parent company previously issued \$7.2 million in junior subordinated debentures in February 2001. Dividends from the Banks primarily provide liquidity for the parent company. As a publicly traded company, the parent company also has the ability to issue additional trust preferred and other securities instruments to provide funds as needed for operations and future growth.

*Capital*



The Company and the Banks are required to maintain certain minimum capital levels. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. At June 30, 2007, the Company and the Banks were in compliance with statutory minimum capital requirements and were classified as "well capitalized". Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 4.0%, and a leverage ratio (Tier 1 to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of June 30, 2007, the Company's leverage ratio was 8.63%, Tier 1 capital to risk-weighted assets was 11.10% and total capital to risk-weighted assets was 11.93%. MidSouth LA and MidSouth TX had leverage capital ratios of 8.34% and 9.48%, respectively, at June 30, 2007.

Table of Contents*Asset Quality*

## Credit Risk Management

The Company manages its credit risk by observing written, board approved policies that govern all underwriting activities. The risk management program requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by external and internal independent reviews and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. Additionally, bank concentrations are monitored and reported to the Board of Directors quarterly whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment.

## Nonperforming Assets and Loans Past Due 90 Days and Over

Table 6 summarizes the Company's nonperforming assets and loans past due 90 days and over for the quarters ending June 30, 2007 and 2006 and for the year-ended December 31, 2006.

**Table 6**  
**Nonperforming Assets and Loans Past Due 90 Days or More**  
(in thousands)

|   | <b>June 30, 2007</b> | <b>June 30, 2006</b> | <b>December 31,<br/>2006</b> |
|---|----------------------|----------------------|------------------------------|
| Nonaccrual loans  | \$ 840               | \$ 543               | \$ 1,793                     |
| Loans past due 90 days and over   | 596                  | 2,104                | 98                           |
| Total nonperforming loans   | 1,436                | 2,647                | 1,891                        |
| Other real estate owned   | 251                  | 32                   | 368                          |
| Other foreclosed assets   | 76                   | 25                   | 55                           |
| Total nonperforming assets  | \$ 1,763             | \$ 2,704             | \$ 2,314                     |
| Nonperforming assets to total assets                                    | 0.21%                | 0.35%                | 0.29%                        |
| Nonperforming assets to total loans<br>+ OREO + other foreclosed assets | 0.32%                | 0.55%                | 0.46%                        |
| ALL to nonperforming assets   | 293.93%              | 180.73%              | 215.08%                      |
| ALL to nonperforming loans  | 360.86%              | 184.62%              | 263.19%                      |
| ALL to total loans  | 0.95%                | 1.00%                | 1.00%                        |
| Year-to-date charge-offs  | \$ 187               | \$ 310               | \$ 542                       |
| Year-to-date recoveries   | 42                   | 223                  | 314                          |
| Year-to-date net charge-offs  | \$ 145               | \$ 87                | \$ 228                       |
| Net YTD charge-offs to total loans                                      | 0.03%                | 0.02%                | 0.05%                        |

Nonperforming assets, including loans 90 days or more past due, totaled \$1.8 million at June 30, 2007 compared to \$2.7 million at June 30, 2006 and \$2.3 million at December 31, 2006. Net year-to-date charge-offs were 0.03% of total loans as of June 30, 2007 compared to 0.02% at June 30, 2006 and 0.05% at December 31, 2006. Due to the increase in loans, a provision expense for loan losses of \$350,000 was recorded in the second quarter 2007 as compared to a \$300,000 provision for the second quarter of 2006 and an \$180,000 provision for the fourth quarter of 2006. As a percentage of total loans, the ALL for the quarter ended June 30, 2007 was 0.95%, compared to 1.00% at

June 30, 2006 and at December 31, 2006.

Specific reserves have been established in the ALL to cover probable losses on nonperforming assets. The ALL is analyzed quarterly and additional reserves, if needed, are allocated at that time. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which management determines the appropriate level of the allowance, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. Management believes the \$5,181,861 in the allowance as of June 30, 2007 is sufficient to cover probable losses in nonperforming assets and in the loan portfolio.

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*Impact of Inflation and Changing Prices*

The consolidated financial statements of and notes thereto, presented herein, have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are financial. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

In the normal course of conducting business, the Company is exposed to market risk, principally interest rate risk, through operation of its subsidiaries. Interest rate risk arises from market fluctuations in interest rates that affect cash flows, income, expense and values of financial instruments. The Asset/Liability Management Committee ("ALCO") is responsible for managing the Company's interest rate risk position in compliance with the policy approved by the Board of Directors.

There have been no significant changes from the information regarding market risk disclosed under the heading "Interest Rate Sensitivity" in the Company's Annual Report for the year ended December 31, 2006.

**Item 4. Controls and Procedures.**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"), the principal executive officer and principal financial officer have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

During the second quarter of 2007, there were no significant changes in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to affect, the Company's internal controls over financial reporting.

Table of Contents**Part II – Other Information****Item 1. Legal Proceedings.**

The Banks have 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 currently 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 operations, or cash flows.

**Item 1A. Risk Factors.**

No change.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser," as defined in Securities Exchange Act Rule 10b-8(a)(3), of equity securities during the quarter ended June 30, 2007.

|            | <b>Total Number<br/>of Shares<br/>Purchased</b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of a<br/>Publicly<br/>Announced Plan<sup>7</sup></b> | <b>Maximum<br/>Number of Shares<br/>That May Yet be<br/>Purchased Under<br/>the Plan<sup>7</sup></b> |
|------------|---|---|--|--|
| April 2007 | -   | -                                       | -  | 200,739  |
| May 2007   | 1,665   | \$ 23.98                                | 1,665  | 199,074  |
| June 2007  | 2,505   | \$ 23.65                                | 2,505  | 196,569  |

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

On May 30, 2007, the Company held its annual shareholders meeting where shareholders voted upon the election of Directors and MidSouth Bancorp's 2007 Omnibus Incentive Compensation Plan. The matters voted on and the results of the vote are presented below.

Will Charbonnet Sr., Clayton Paul Hilliard, Stephen C. May, and Joseph V. Tortorice, Jr. were re-elected to the Company's Board of Directors for 3-year terms to expire at the annual shareholders' meeting in 2010.

Timothy J. Lemoine and R. Glenn Pumpelly were elected as members to the Company's Board. Mr. Lemoine was elected for a two-year term to expire at the Company's annual shareholders' meeting in 2009; Mr. Pumpelly was elected to serve until the annual shareholders' meeting in 2008.

<sup>7</sup> Under a share repurchase program approved by the Company's Board of Directors on November 13, 2002, the Company can repurchase up to 5% of its common stock outstanding through open market or privately negotiated transactions. The repurchase program does not have an expiration date.

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The results of the election were as follows:

| Name of Nominee          | Votes Cast |           | Broker<br>Non-votes |
|--------------------------|------------|-----------|---------------------|
|                          | For        | Abstained |                     |
| Will Charbonnet Sr.      | 3,224,859  | 3,655     | 1,135,548           |
| Clayton Paul Hilliard    | 3,223,511  | 5,003     | 1,135,548           |
| Stephen C. May           | 3,085,679  | 142,835   | 1,135,548           |
| Joseph V. Tortorice, Jr. | 3,224,859  | 3,655     | 1,135,548           |
| Timothy J. Lemoine       | 3,224,759  | 3,755     | 1,135,548           |
| R. Glenn Pumpelly        | 3,224,648  | 3,866     | 1,135,548           |

The shareholders approved of the MidSouth Bancorp 2007 Omnibus Incentive Compensation Plan that replaces the 1997 Incentive Stock Option Plan which expired in February 2007. The results of the vote were as follows:

| For       | Votes Cast |           | Broker<br>Non-votes |
|-----------|------------|-----------|---------------------|
|           | Against    | Abstained |                     |
| 2,868,322 | 338,463    | 21,719    | 1,135,548           |

**Item 5. Other Information.**

None.

**Item 6. Exhibits.****(a) Exhibits**

| <u>Exhibit Number</u> | <u>Document Description</u>   |
|-----------------------|---|
| 31.1                  | Certification pursuant to Exchange Act Rules 13(a) – 14(a)              |
| 31.2                  | Certification pursuant to Exchange Act Rules 13(a) – 14(a)              |
| 32.1                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2                  | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**(b) Reports Filed on Form 8-K**

A press release regarding the Company's earnings for the quarter ended June 30, 2007 was attached as Exhibit 99.1 to the Form 8-K filed on July 26, 2007.





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**Signatures**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MidSouth Bancorp, Inc.  
(Registrant)

Date: August 9, 2007

/s/ C. R. Cloutier

C. R. Cloutier, President /CEO

/s/ J. E. Corrigan, Jr.

J. E. Corrigan, Jr., Executive Vice President/CFO

/s/ Teri S. Stelly

Teri S. Stelly, SVP/Controller

