

MIDSOUTH BANCORP INC
Form 10-K
March 16, 2011

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission File number 1-11826

MIDSOUTH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Louisiana

72-1020809

(State of Incorporation)

(I.R.S. EIN Number)

102 Versailles Boulevard, Lafayette, Louisiana 70501

(Address of principal executive offices)

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	New York Stock Exchange AMEX

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

Indicate by check mark if this registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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 No

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

Indicate by check mark if disclosure of delinquent filers in response 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-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a nonaccelerated filer. A large accelerated filer An accelerated filer A nonaccelerated filer A smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)
Yes No

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant at June 30, 2010 was approximately \$84,624,211 based upon the closing market price on NYSE Amex as of such date. As of March 15, 2011 there were 9,730,266 outstanding shares of MidSouth Bancorp, Inc. common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

MIDSOUTH BANCORP, INC.
2010 Annual Report on Form 10-K
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Report and the documents incorporated by reference herein, other than statements of historical fact, are forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. Forward-looking statements include, but are not limited to certain statements under the captions “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “will,” “would,” “could,” “should,” “guarantee,” “continue,” “project,” “forecast,” “confident,” and similar expressions are typically used to identify forward-looking statements. These statements are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties and may be affected by various factors that may cause actual results, developments and business decisions to differ materially from those in the forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include the factors discussed under the caption “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Report and the following:

- 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, including, without limitation, changes related to the oil and gas industries and the long-term impacts of the oil spill in the Gulf of Mexico, that could adversely affect customers and their ability to repay borrowings under agreed upon terms, adversely affect the value of the underlying collateral related to their borrowings, and reduce demand for loans;
 - increased competition for deposits and loans which could affect compositions, 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 our allowance for loan losses (“ALLL”), which could result in greater than expected loan losses;
 - changes in the availability of funds resulting from reduced liquidity or increased costs;
- the timing and impact of future acquisitions, the success or failure of integrating operations, and the ability to capitalize on growth opportunities upon entering new markets;
 - the ability to acquire, operate, and maintain effective and efficient operating systems;
- increased asset levels and changes in the composition of assets that would impact capital levels and regulatory capital ratios;
 - loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels;
- legislative and regulatory changes, including the impact of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and other changes in banking, securities and tax laws and regulations and their application by our regulators, changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverage;
- regulations and restrictions resulting from our participation in government sponsored programs such as the U.S. Treasury’s Capital Purchase Program and the recently enacted Small Business Lending Fund, including potential retroactive changes in such programs;
- changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
 - acts of war, terrorism, weather, or other catastrophic events beyond our control; and
 - the ability to manage the risks involved in the foregoing.

We can give no assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. We disclaim any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

Part I

Item 1 - Business

Overview

The Company was incorporated in 1984 as a Louisiana corporation and a registered bank holding company headquartered in Lafayette, Louisiana. Since February 2008, its operations have been conducted primarily through its wholly owned bank subsidiary MidSouth Bank, N.A. Prior to February 2008, we owned and operated two separate banking subsidiaries, that we merged together in order to consolidate operations and reduce expenses. The Bank, a national banking association, was chartered and commenced operations in 1985. As of December 31, 2010, the Bank operated through a network of 34 offices and 48 ATMs located in south Louisiana and southeast Texas.

Unless otherwise indicated or unless the context requires otherwise, all references in this report to “the Company,” “we,” “us,” “our,” or similar references, mean MidSouth Bancorp, Inc. and our subsidiaries, including our banking subsidiary, MidSouth Bank, N.A., on a consolidated basis. References to “MidSouth Bank” or the “Bank” mean our wholly owned banking subsidiary, MidSouth Bank, N.A.

Products and Services

The Bank is community oriented and focuses primarily on offering commercial and consumer loan and deposit services to small and middle market businesses, their owners and employees, and other individuals in our markets. Our community banking philosophy emphasizes personalized service and building broad customer relationships. Deposit products and services offered by the Bank include interest-bearing and noninterest-bearing checking accounts, investment accounts, cash management services, electronic banking services, including remote deposit capturing services and credit cards. Most of the Bank’s deposit accounts are FDIC-insured up to the maximum allowed and the Bank is a member of the Pulse network, which provides customers with ATM services through the Pulse and Cirrus networks throughout the world.

Loans offered by the Bank include commercial and industrial loans, commercial real estate loans (both owner-occupied and non-owner occupied), other loans secured by real estate and consumer loans. We commenced operations during a severe economic downturn in Louisiana more than 25 years ago. Our survival and growth in the ensuing years has instilled in us a conservative operating philosophy. Our conservative attitude impacts our credit and funding decisions, including underwriting loans primarily based on the cash flows of the borrower (rather than just relying on collateral valuations) and focusing lending efforts on working capital and equipment loans to small and mid-sized businesses along with owner-occupied properties.

Our conservative operating philosophy extends to managing the various risks we face. We maintain a separate risk management group to help identify and manage these various risks. This group, which reports directly to the Chairman of our Audit Committee, not to other members of the senior management team, includes our audit, collections, compliance, in-house legal counsel, loan review and security functions and is staffed with experienced accounting and legal professionals.

We are committed to an exceptional level of customer care. We maintain our own in-house call center so that customers enjoy live interaction with employees of the Bank rather than an automated telephone system. Additionally, we provide our employees with the training and technological tools to improve customer care. We have also implemented a customer relationship management database that serves not only as a sales tool but also helps us ensure delivery of outstanding service to our customers. In addition, we conduct focus groups within the

communities we serve and strive to create a two-way dialog to ensure that we are offering the banking products and services that our customers and communities need.

Markets

We operate in south Louisiana and southeast Texas along the Interstate 10, Interstate 49, Interstate 45, and Highway 90 corridors. As of December 31, 2010, our market area in south Louisiana included 27 offices and is bound by Houma to the south, Baton Rouge to the east, Opelousas to the north and Lake Charles to the west. Our market area in southeast Texas included seven offices and includes the Beaumont, College Station, Conroe and Houston areas. For additional information regarding our properties, see Item 2 – Properties of this Report.

We believe that high energy prices and continued rebuilding from the storms of 2005 in Louisiana and Texas have partially insulated our markets from the full impact of the national recession. Furthermore, our markets have not experienced the severity of real estate price declines that have plagued so much of the country, and have generally suffered fewer job losses than the rest of the U.S. Oil and gas is the key industry within our markets. However, technology and research companies continue to develop within these markets thereby diversifying the economy. Additionally, numerous major universities located within our market areas, including Louisiana State University, University of Houston, Rice University, Texas A&M University and University of Louisiana at Lafayette, provide a substantial number of jobs and help to contribute to the educated work force within our markets.

We believe our financial condition coupled with our scalable operational capabilities, will facilitate future growth, both organically and through acquisition, including potential growth in new market areas.

Competition

We face strong competition in our market areas from both traditional and nontraditional financial services providers, such as commercial banks; savings banks; credit unions; finance companies; mortgage, leasing, and insurance companies; money market mutual funds; brokerage houses; and branches that provide credit facilities. The Dodd-Frank Act has also made it easier for banks to branch across state lines which could further increase the competition we face. Several of the financial services competitors in our market areas are substantially larger and have far greater resources; however we have effectively competed by building long-term customer relationships. Customer loyalty has been built through our continued focus on quality customer care enhanced by technology and effective delivery systems.

Other factors, including economic, legislative, and technological changes, also impact our competitive environment. Management continually evaluates competitive challenges in the financial services industry and develops appropriate responses consistent with our overall market strategy.

Employees

As of December 31, 2010, the Bank employed approximately 389 full-time equivalent employees. The Company had no employees who are not also employees of the Bank. Through the Bank, employees receive customary employee benefits, which include an employee stock ownership plan; a 401(K) plan; and life, health and disability insurance plans. Our directors, officers, and employees are important to the success of the Company and play a key role in business development by actively participating in the communities served by the Company. The Company considers the relationship of the Bank with its employees as a whole to be good.

Additional Information

More information on the Company and the Bank is available on the Bank's website at www.midsouthbank.com. The Company is not incorporating by reference into this Report the information contained on its website; therefore, the content of the website is not a part of this Report. Copies of this Report and other reports filed or furnished by the Company pursuant to Section 13(a) or 15(d) of the Exchange Act, including exhibits, are available free of charge on the Company's website under the "Investor Relations" link as soon as reasonably practicable after they have been filed or furnished electronically to the Securities and Exchange Commission ("SEC"). Copies of these filings may also be obtained free of charge on the SEC's website at www.sec.gov.

Supervision and Regulation

Under Federal Reserve policy, we are expected to act as a source of financial strength for, and to commit resources to support, the Bank. This support may be required at times when, absent such Federal Reserve policy, we may not be inclined to provide such support. In addition, any capital loans by a bank holding company to any of its banking subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of a banking subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Dodd-Frank Act

In July 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act is intended to effect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act creates a new Financial Stability Oversight Council to identify systemic risks in the financial system and also creates a new independent

federal regulator to administer federal consumer protection laws. We expect the Dodd-Frank Act to have a significant impact on our business operations as its provisions take effect. Provisions that are likely to affect us include the following, some of which are discussed in more detail below:

Holding Company Capital Requirements. The Dodd-Frank Act requires the Federal Reserve to apply consolidated capital requirements to holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than \$15 billion in assets. Given our current asset size and the issuance date of our trust preferred securities, we expect to continue to include our trust preferred securities in our Tier 1 capital.

Deposit Insurance. The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to \$250,000 per depositor, and extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. As discussed in more detail below, the Dodd-Frank Act also broadened the base for FDIC insurance assessments, increased the reserve ratio of the Deposit Insurance Fund (“DIF”) and eliminated the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Additionally, effective July 10, 2011, the Dodd-Frank Act eliminates the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance. The Dodd-Frank Act mandated to adoption by various regulatory agencies of a number of corporate governance provisions. These included requiring the Securities and Exchange Commission to adopt rules applicable to publicly traded companies that give shareholders a non-binding vote on executive compensation and on so-called “golden parachute” payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders, which rules were subsequently enacted by the SEC in January 2011. Additionally, the Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion, regardless of whether the company is publicly traded or not.

Interstate Branching. The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Transactions with Affiliates and Insiders. As discussed in more detail below, effective July 10, 2011, the Dodd-Frank Act expands the definition of affiliate and the types of transactions to which the current restrictions on affiliate transactions apply.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau (“CFPB”), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB will have examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions, like the Bank, will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act also authorizes the CFPB to establish certain minimum standards for the origination of

residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Additionally, the Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

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Capital Requirements

We are subject to various regulatory capital requirements administered by the Federal Reserve and the OCC. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. For further detail on capital and capital ratios see discussion under Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Under the risk-based capital requirements for bank holding companies, the minimum requirement for the ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital (as defined below) is to be composed of common stockholders’ equity, retained earnings, qualifying perpetual preferred stock (in a limited amount in the case of cumulative preferred stock), minority interests in the equity accounts of consolidated subsidiaries, and qualifying trust preferred securities, less goodwill and certain intangibles (“Tier 1 Capital”). The remainder of total capital may consist of qualifying subordinated debt and redeemable preferred stock, qualifying cumulative perpetual preferred stock and allowance for loan losses (“Tier 2 Capital”, and together with Tier 1 Capital, “Total Capital”). At December 31, 2010, our Tier 1 Capital ratio was 21.11% and Total Capital ratio was 22.36%.

The Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These requirements provide for a minimum leverage ratio of Tier 1 Capital to adjusted average quarterly assets (“Leverage Ratio”) equal to 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating. All other bank holding companies will generally be required to maintain a leverage ratio of at least 4%. Our Leverage Ratio at December 31, 2010, was 14.00%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines provide that the Federal Reserve will continue to consider a “tangible tier 1 leverage ratio” (deducting all intangibles) in evaluating proposals for expansion or to engage in new activity.

The Dodd-Frank Act prohibits insured depository institutions and their holding companies from engaging in proprietary trading except in limited circumstances, and prohibits them from owning equity interests in excess of three percent (3%) of a bank’s Tier 1 Capital in private equity and hedge funds. The Federal Reserve released a final rule on February 9, 2011 (effective on April 1, 2011) which requires a “banking entity,” a term that is defined to include bank holding companies like the Company, to bring its proprietary trading activities and investments into compliance with the Dodd-Frank Act restrictions no later than two years after the earlier of: (1) July 21, 2012, or (2) 12 months after the date on which interagency final rules are adopted. Pursuant to the compliance date final rule, banking entities are permitted to request an extension of this timeframe from the Federal Reserve. We will review the implications of the interagency rules on our investments once those rules are issued and will adjust our activities or holdings in order to comply.

The Bank is subject to similar capital requirements adopted by the OCC. The risk-based capital requirements identify concentrations of credit risk and certain risks arising from non-traditional activities, and the management of those risks, as important factors to consider in assessing an institution’s overall capital adequacy. Other factors taken into consideration by federal regulators include: interest rate exposure; liquidity, funding and market risk; the quality and level of earnings; the quality of loans and investments; the effectiveness of loan and investment policies; and management’s overall ability to monitor and control financial and operational risks, including the risks presented by

concentrations of credit and non-traditional activities.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), and are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories. The severity of the action will depend upon the capital category in which the institution

is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have set the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal regulatory agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to certain limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. In addition, the appropriate federal regulatory agency may treat an undercapitalized institution in the same manner as it treats a significantly undercapitalized institution if it determines that those actions are necessary.

At December 31, 2010, the Bank had the requisite capital level to qualify as "well capitalized" under the regulatory framework for prompt corrective action.

FDIC Insurance Assessments

The Bank is a member of, and pays its deposit insurance assessments to the Deposit Insurance Fund (the "DIF"), as well as assessments by the FDIC to pay interest on Financing Corporation ("FICO") bonds. The FDIC establishes rates for the payment of premiums by federally insured banks and federal savings associations for deposit insurance. The FDIC has revised its risk-based assessment system as required by the FDICIA. Under current FDIC rules, banks and federal savings associations must pay assessments to the FDIC for federal deposit insurance protection at rates based on their risk classification. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to the FDIC's DIF under this assessment system) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. At December 31, 2010, our risk category required a quarterly payment of approximately 15.05 basis points per \$100 of assessable deposits.

The Dodd-Frank Act set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits, which the FDIC must attain by September 30, 2020. In addition, the Dodd-Frank Act will have a significant impact on the calculation of deposit insurance assessment premiums going forward. Specifically, the Dodd-Frank Act generally requires the FDIC to define the deposit insurance assessment base for an insured depository institution as an amount equal to the institution's average consolidated total assets during the assessment period minus average tangible equity. The FDIC issued a final rule that implements this change to the assessment calculation on February 7, 2011. The assessment rate schedule for larger institutions (i.e., institutions greater than \$10 billion in assets) will differentiate between such large institutions by use of a "scorecard" that combines an institution's CAMELS ratings with certain forward-looking financial information to measure the risk to the DIF. Pursuant to this "scorecard" method, two scores (a performance score and a loss severity score) will be combined and converted to an initial base assessment rate. The performance score measures an institution's financial performance and ability to withstand stress. The loss severity score measures the relative magnitude of potential losses to the FDIC in the event of the institution's failure. Total scores are converted pursuant to a predetermined formula into an initial base assessment rate. The new assessment rules will take effect for the quarter beginning April 1, 2011, and will be reflected in the June 30, 2011 fund balance and the invoices for assessments due September 30, 2011. Premiums for the Bank will be calculated based upon the average balance of total assets minus tangible equity as of the close of business for each day during the calendar quarter. The proposed FDIC rule also provides the FDIC's board with the flexibility to adopt actual rates that are higher or lower than the

total base assessment rates adopted without notice and comment, if certain conditions are met. We currently expect our FDIC assessment rate to decrease as a result of these new changes.

FICO assessments are set by the FDIC quarterly and are used towards the retirement of FICO bonds issued in the 1980s to assist in the recovery of the savings and loan industry. These assessments will continue until the FICO Bonds mature in 2019. The FICO assessment rate was 1.02 basis points for the fourth quarter of 2010 compared to 1.06 basis points for the first quarter of 2010 for each \$100 in domestic deposits.

Allowance for Loan and Lease Losses

The Allowance for Loan and Lease Losses (the “ALLL”) represents one of the most significant estimates in the Bank’s financial statements and regulatory reports. Because of its significance, the Bank has established a system by which it develops, maintains, and documents a comprehensive, systematic, and consistently applied process for determining the amounts of the ALLL and the provision for loan and lease losses. The Interagency Policy Statement on the ALLL, issued on December 13, 2006, encourages all banks and federal savings institutions to ensure controls are in place to consistently determine the ALLL in accordance with generally accepted accounting principles in the United States, the federal savings association’s stated policies and procedures, management’s best judgment and relevant supervisory guidance. The Bank’s estimate of credit losses reflects consideration of significant factors that affect the collectability of the portfolio as of the evaluation date.

Safety and Soundness Standards

The Federal Deposit Insurance Act, as amended by the FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994, requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation and fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of FDICIA. See “-Prompt Corrective Action” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties. The federal regulatory agencies also proposed guidelines for asset quality and earnings standards.

Interagency Appraisal and Evaluation Guidelines

In December 2010, the federal banking agencies issued the Interagency Appraisal and Evaluation Guidelines. This guidance, which updated guidance originally issued in 1994, sets forth the minimum regulatory standards for appraisals. It incorporates previous regulatory issuances affecting appraisals, addresses advances in information technology used in collateral evaluation, and clarifies standards for use of analytical methods and technological tools in developing evaluations. This guidance also requires institutions to utilize strong internal controls to ensure reliable appraisals and evaluations and to monitor and periodically update valuations of collateral for existing real estate loans and transactions.

Community Reinvestment Act

Under the Community Reinvestment Act (“CRA”) the Bank has an obligation to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA requires the appropriate federal regulator, in connection with its examination of an insured institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its

evaluation of certain applications, such as applications for a merger or the establishment of a branch. An unsatisfactory rating may be used as the basis for the denial of an application by the federal banking regulator. The Bank received a satisfactory rating in its most recent CRA examination.

Restrictions on Transactions with Affiliates

We are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on: the amount of a bank's loans or extensions of credit to affiliates; a bank's investment in affiliates; assets a bank may purchase from affiliates, except for real and personal property exemption by the Federal Reserve; the amount of

loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and a bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10.0% of a bank's capital and surplus and, as to all affiliates combined, to 20.0% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

We are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Dodd-Frank Act changed the definition of "covered transaction" in Sections 23A and 23B and limitations on asset purchases from insiders. With respect to the definition of "covered transaction," the Dodd-Frank Act defines that term to include the acceptance of debt obligations issued by an affiliate as collateral for a bank's loan or extension of credit to another person or company. In addition, a "derivative transaction" with an affiliate is now deemed to be a "covered transaction" to the extent that such a transaction causes a bank or its subsidiary to have a credit exposure to the affiliate. In addition, the Dodd-Frank Act provides that the Bank may not "purchase an asset from, or sell an asset to" a Bank insider (or their related interests) unless (1) the transaction is conducted on market terms, and (2) if the proposed transaction represents more than 10 percent of the capital stock and surplus of the Bank, it has been approved in advance by a majority of the Bank's non-interested directors.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and must not involve more than the normal risk of repayment or present other unfavorable features.

USA Patriot Act of 2001

In October 2001, the USA Patriot Act of 2001 (the "Patriot Act") was enacted in response to the terrorist attacks in New York, Pennsylvania, and Washington, D.C. that occurred on September 11, 2001. The Patriot Act impacts financial institutions in particular through its anti-money laundering and financial transparency laws. The Patriot Act amended the Bank Secrecy Act and the rules and regulations of the Office of Foreign Assets Control to establish regulations which, among others, set standards for identifying customers who open an account and promoting cooperation with law enforcement agencies and regulators in order to effectively identify parties that may be associated with, or involved in, terrorist activities or money laundering.

In 2006, Congress passed the USA Patriot Act Improvement and Reauthorization Act of 2005. This act reauthorized all provisions of the Patriot Act that would otherwise have expired, made 14 of the 16 sunset provisions permanent, and extended the sunset period of the remaining two for an additional four years.

Privacy

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services.

Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. The

Bank has established policies and procedures designed to safeguard its customers' personal financial information and to ensure compliance with applicable privacy laws.

Other Regulations

Interest and other charges collected or contracted for by the Bank are subject to federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to the following:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
 - the Truth in Savings Act, which requires disclosure of yields and costs of deposits and deposit accounts.

Effect of Governmental Monetary Policies

Our earnings are affected by the monetary and fiscal policies of the United States government and its agencies, as well as general domestic economic conditions. The Federal Reserve's power to implement national monetary policy has had, and is likely to continue to have, an important impact on the operating results of financial institutions. The Federal Reserve affects the levels of bank loans, investments, and deposits through its control over the issuance of U.S. government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature, timing or impact of future changes in monetary and fiscal policies.

Emergency Economic Stabilization Act of 2008 and Subsequent Legislation

The Emergency Economic Stabilization Act of 2008 ("EESA") was enacted on October 3, 2008. EESA authorizes the U.S. Department of the Treasury ("Treasury") to invest up to \$700 billion in troubled assets, to provide capital, or to otherwise provide assistance to U.S. banks, federal savings institutions and their holding companies ("TARP"). Pursuant to authority granted under EESA, the Treasury will invest or has invested up to \$250 billion in senior preferred stock of U.S. banks and federal savings institutions or their holding companies under the Capital Purchase Program (the "CPP"). Qualifying financial institutions may issue senior preferred stock with a value equal to not less than 1% of risk-weighted assets and not more than the lesser of \$25 billion or 3% of risk-weighted assets. In January 2009, we issued \$20.0 million in Series A Preferred Stock to the Treasury under the CPP, which was promulgated under TARP.

As a result of our participation in the CPP, we are subject to the Treasury's standards for executive compensation and corporate governance as long as the Treasury holds the equity issued under the CPP. These standards generally apply to the chief executive officer, chief financial officer and the three next most highly compensated senior executive officers. The standards include: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibitions on making golden parachute payments to senior executives; and (4) an agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive.

On February 10, 2009, the Treasury announced the Financial Stability Plan (the "Financial Stability Plan"), which earmarked \$350 billion of the TARP funds authorized under EESA. Among other things, the Financial Stability Plan includes:

- a capital assistance program (“CAP”) that will invest in mandatory convertible preferred stock of certain qualifying institutions determined on a basis and through a process similar to the CPP;
- a consumer and business lending initiative to fund new consumer loans, small business loans and commercial mortgage asset-backed securities issuances;

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- a new public-private investment fund that will leverage public and private capital with public financing to purchase up to \$500 billion to \$1 trillion of legacy “toxic assets” from financial institutions; and
- assistance for homeowners by providing up to \$75 billion to reduce mortgage payments and interest rates and establishing loan modification guidelines for government and private programs.

Institutions receiving assistance under the Financial Stability Plan going forward will be subject to higher transparency, corporate governance and accountability standards, including restrictions on dividends, acquisitions, executive compensation and additional disclosure requirements.

On February 17, 2009, the American Recovery and Reinvestment Act (the “ARRA”) became law. The ARRA purports to retroactively impose certain new executive compensation and corporate expenditure limits and corporate governance standards on all current and future recipients of TARP funds, including us, that are in addition to those previously announced by the Treasury, until the institution has repaid the Treasury.

Item 1A – Risk Factors

An investment in our stock involves a number of risks. Investors should carefully consider the following risks as well as the other information in this Report and the documents incorporated by reference before making an investment decision. The realization of any of the risks described below could have a material adverse effect on the Company and the price of our common stock.

Risks Relating to Our Business

The current economic environment poses significant challenges and could adversely affect our financial condition and results of operations.

There was significant disruption and volatility in the financial and capital markets during the past few years. The financial markets and the financial services industry in particular suffered unprecedented disruption, causing a number of institutions to fail or require government intervention to avoid failure. These conditions were largely the result of the erosion of the U.S. and global credit markets, including a significant and rapid deterioration in mortgage lending and related real estate markets. Continued declines in real estate values, high unemployment and financial stress on borrowers as a result of the uncertain economic environment could have an adverse effect on our borrowers or their customers, which could have a material adverse effect on our business, prospects, financial condition and results of operations.

As a consequence of the difficult economic environment, we experienced a significant decrease in earnings resulting primarily from increased provisions for loan losses. There can be no assurance that the economic conditions that have adversely affected the financial services industry, and the capital, credit and real estate markets generally, will improve in the near term, in which case we could continue to experience write-downs of assets, and could face capital and liquidity constraints or other business challenges. A further deterioration in economic conditions, particularly within our market areas, could result in the following consequences, any of which could have a material adverse effect on our business, prospects, financial condition and results of operations:

- Loan delinquencies may further increase causing additional increases in our provision and allowance for loan losses.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.
- Collateral for loans made by the Bank, especially real estate, may continue to decline in value, in turn reducing a customer’s borrowing power, and reducing the value of assets and collateral associated with our loans.
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Consumer confidence levels may decline and cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities and decreased demand for our products and services.

Our market areas are heavily dependent on, and we have significant credit exposure to, the oil and gas industry. The economy in a large portion of our market areas is heavily dependent on the oil and gas industry. Many of our customers provide transportation and other services and products that support oil and gas exploration and production activities. Accordingly, as of December 31, 2010, we had approximately \$97.6 million in loans to borrowers in the

oil and gas industry, representing approximately 16.8% of our total loans outstanding as of that date. The oil and gas industry, especially in Louisiana and Texas, has been subject to significant volatility, including the “oil bust” of the 1980s that severely impacted the economies of many of our market areas. Recently, President Obama’s administration proposed a number of legislative changes that could significantly impact the oil and gas industry, including the elimination of certain tax breaks, such as the intangible drilling and development costs, percentage depletion and manufacturing deduction, and the implementation of an excise tax focused specifically on production in the Gulf of Mexico. If there is a significant downturn in the oil and gas industry, generally the cash flows of our customers in this industry would be adversely impacted which could impair their ability to service our loans outstanding to them and/or reduce demand for loans. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may suffer losses in our loan portfolio in excess of our allowance for loan losses.

We have experienced increases in the levels of our non-performing assets and loan charge-offs in recent periods. Our total non-performing assets amounted to \$20.9 million, or 2.09% of our total assets, at December 31, 2010 and we had \$4.2 million of net loan charge-offs and a \$5.0 million provision for loan losses for the year ended December 31, 2010. At December 31, 2010, the ratios of our ALLL to non-performing loans and to total loans outstanding were 44.81% and 1.52%, respectively. Additional increases in our non-performing assets or loan charge-offs could have a material adverse effect on our financial condition and results of operations.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower’s prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we still may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our ALLL. We create an ALLL in our accounting records, based on, among other considerations, the following:

- industry historical losses as reported by the FDIC;
 - historical experience with our loans;
 - evaluation of economic conditions;
- regular reviews of the quality mix, including our distribution of loans by risk grade within our portfolio, and size of our overall loan portfolio;
 - regular reviews of delinquencies; and
 - the quality of the collateral underlying our loans.

Although we maintain an ALLL at a level that we believe is adequate to absorb losses inherent in our loan portfolio, changes in economic, operating and other conditions, including conditions which are beyond our control such as a sharp decline in real estate values and changes in interest rates, may cause our actual loan losses to exceed our current allowance estimates. Additions to the ALLL could result in a decrease in net earnings and capital and could hinder our ability to grow. Further, if our actual loan losses exceed the amount reserved, it could have a material adverse effect on our financial condition and results of operations.

We cannot predict the effect of recent or future legislative and regulatory initiatives.

Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, including: (i) changes in banking, securities and tax laws and regulations and their application by our regulators, including pursuant to the Dodd-Frank Act, as discussed below; (ii) changes in the scope and cost of FDIC insurance and other coverages; and (iii) changes in the CPP under TARP administered by the Treasury which we participated in by issuing \$20.0 million in shares of our Series A Preferred Stock and

associated common stock warrants to the Treasury in January 2009 (the “CPP Transaction”), none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially from those we currently anticipate. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve Board, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve

requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our business, prospects, financial condition and results of operations.

We expect to continue to face increased regulation and supervision of our industry as a result of the continuing economic instability, and there may be additional requirements and conditions imposed on us as a result of our issuance of the Series A Preferred Stock in the CPP Transaction and our potential participation in the Small Business Lending Fund. Such additional regulation and supervision may increase our costs and limit our ability to pursue business opportunities. The affects of such recently enacted, and proposed, legislation and regulatory programs on us cannot reliably be determined at this time.

The full impact of the recently enacted Dodd-Frank Act is currently unknown given that much of the details and substance of the new laws will be implemented through agency rulemakings.

The Dodd-Frank Act was signed into law in July 2010 and represents a comprehensive overhaul of the U.S. financial services industry. The Dodd-Frank Act requires federal agencies to adopt nearly 250 new rules and conduct more than 60 studies over the course of the next few years, ensuring that the federal regulations and implementing policies in these areas will continue to develop for the foreseeable future.

The Dodd-Frank Act includes a number of provisions that will likely impact our operations, including:

- establishing the CFPB which will have broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws and may directly impact the scope and cost of products and services we offer could have a significant effect on our financial performance;
 - changes to the FDIC's insurance assessment methodology;
- permanently increasing deposit insurance coverage to \$250,000 and unlimited FDIC deposit insurance for noninterest-bearing transaction accounts through January 1, 2013;
- authorizing the Federal Reserve to set debit interchange fees in an amount that is "reasonable and proportional" to the costs incurred by processors and card issuers. Notably, a proposed Federal Reserve rule that would limit this interchange fee to 12 cents per transaction has been announced but, has not yet been finalized;
- requiring federal regulators to establish new minimum leverage and risk-based capital requirements for large banks, bank holding companies and systemically important non-banks; and
- codifying what was previously a regulatory policy that bank holding companies act as a "source of strength" for their depository institution subsidiaries.

Based on the text of the Dodd-Frank Act and the anticipated implementing regulations, including recent amendments, it is anticipated that the costs to banks and their holding companies may increase or fee income may decrease significantly which could adversely affect our results of operations, financial condition or liquidity. Moreover, compliance obligations will expose us to additional noncompliance risk and could divert management's focus from the business of banking.

The CFPB may reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices, which may directly impact the business operations of depository institutions offering consumer financial products or services, including the Bank.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer to consumers covered financial products and services. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an "abusive" practice is new under the law. The full scope of the impact of this authority has not yet been determined as the implementing rules of the Dodd-Frank Act

with respect to the CFPB have not yet been released. While the Bank will not be supervised by the CFPB, it will still be subject to the regulations and policies promulgated by the CFPB and may be examined by the OCC for compliance therewith. The costs and limitations related to complying with any new regulations established by the CFPB have yet to be fully determined and could be material. Further, the limitations and restrictions that will be placed upon the Bank with respect to its consumer product offering and services may also produce significant, material effects on the Bank's (and our) profitability.

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We have a concentration of exposure to a number of individual borrowers. Given the size of these loan relationships relative to capital levels and earnings, a significant loss on any one of these loans could materially and adversely affect us.

We have a concentration of exposure to a number of individual borrowers. Our largest exposure to one borrowing relationship as of December 31, 2010, was approximately \$7.7 million, which is 5.66% of our total capital. In addition, as of December 31, 2010, the aggregate exposure to the ten largest borrowing relationships was approximately \$52.8 million, which was 9.09% of loans and 38.62% of total capital. As a result of this concentration, a change in the financial condition of one or more of these borrowers could result in significant loan losses and have a material adverse effect on our financial condition and results of operations.

A large percentage of our deposits are attributable to a relatively small number of customers. The loss of all or some of these customers or a significant decline in their deposit balances may have a material adverse effect on our liquidity and results of operations.

Our 20 largest depositors accounted for approximately 13.92% of our total deposits and our five largest depositors accounted for approximately 6.93% of our total deposits as of December 31, 2010. The ability to attract these types of deposits has a positive effect on our net interest margin as they provide a relatively low cost of funds to the Bank. While we believe we have strong, long-term relationships with each of these customers, the loss of one or more of our 20 largest customers, or a significant decline in the deposit balances would adversely affect our liquidity and require us to attract new deposits, purchase federal funds or borrow funds on a short term basis to replace such deposits, possibly at interest rates higher than those currently paid on these deposits. This could increase our total cost of funds and could result in a decrease in our net interest income and net earnings. If we were unable to develop alternative funding sources, we may have difficulty funding loans or meeting other deposit withdrawal requirements.

We occasionally purchase non-recourse loan participations from other banks based in part on information provided by the selling bank.

From time to time, we purchase loan participations from other banks in the ordinary course of business, usually without recourse to the selling bank. As of December 31, 2010, we had approximately \$37.5 million in purchased loan participations, or approximately 6.5% of our total loan portfolio. When we purchase loan participations, we apply the same underwriting standards as we would to loans that we directly originate and seek to purchase only loans that would satisfy these standards. However, we are not as familiar with the borrower and may rely on information provided to us by the selling bank and typically must rely on the selling bank's administration of the loan relationship. We therefore have less control over, and may incur more risk with respect to, loan participations that we purchase from selling banks as compared to loans that we originate.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.

Most of our commercial business and commercial real estate loans are made to small business or middle market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations.

Our loan portfolio includes a substantial percentage of commercial and industrial loans, which may be subject to greater risks than those related to residential loans.

Our loan portfolio includes a substantial percentage of commercial and industrial loans. Commercial and industrial loans generally carry larger loan balances and historically have involved a greater degree of financial and credit risks than residential first mortgage loans. Repayment of our commercial and industrial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Our commercial and industrial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment, or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may

fluctuate in value based on the success of the business. At December 31, 2010, commercial and industrial loans totaled approximately 30.6% of our total loan portfolio. Adverse changes in local economic conditions impacting our business borrowers could have a material adverse effect on our business, prospects, financial condition and results of operations.

We have a high concentration of loans secured by real estate, and the current downturn in the real estate market could have a material adverse effect on our financial condition and results of operations.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2010, approximately 57.8% of our loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. An adverse change in the economy affecting values of real estate in our primary markets could significantly impair the value of real estate collateral and the ability to sell real estate collateral upon foreclosure. Furthermore, it is likely that we would be required to increase the provision for loan losses. A related risk in connection with loans secured by real estate is the effect of unknown or unexpected environmental contamination, which could make the real estate effectively unmarketable or otherwise significantly reduce its value as collateral. If we were required to liquidate real estate collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase the allowance for loan losses, it could have a material adverse effect on our financial condition and results of operations.

We may face risks with respect to future expansion and acquisition opportunities.

We have expanded our business in part through acquisitions and will continue to look at future acquisitions as a way to further increase our growth. However, we cannot assure you that we will be successful in completing any future acquisitions. Further, failure to realize the potential expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. We do not currently have any specific plans, arrangements or understandings regarding such expansion. We cannot say with any certainty that we will be able to consummate, or if consummated, successfully integrate future acquisitions or that we will not incur disruptions or unexpected expenses in integrating such acquisitions. In attempting to make such acquisitions, we anticipate competing with other financial institutions, many of which have greater financial and operational resources. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- expansion into new markets that may have different characteristics than our current markets and may otherwise present management challenges;
 - exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
 - potential disruption to our business;
 - potential diversion of management's time and attention;
 - the possible loss of key employees and customers of the target institution;
 - difficulty in estimating the value of the target company; and
- potential changes in banking, accounting or tax laws or regulations that may affect the target institution.

If we acquire the assets and liabilities of one or more target banks that are in receivership through the FDIC bid process for failed institutions, such an acquisition will require us, through our bank subsidiary, to enter into a

Purchase and Assumption Agreement (the “P&A Agreement”) with the FDIC. The P&A Agreement is a form document prepared by the FDIC, and our ability to negotiate the terms of this agreement is limited. As a result, we expect that any P&A Agreement would provide for limited disclosure about, and limited indemnification for, risks associated with the target bank. There is a risk that such disclosure regarding, and indemnification for, the assets and liabilities of target banks will not be sufficient and we will incur unanticipated losses. There is also a risk that we may be required to make an additional payment to the FDIC under certain circumstances following the

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completion of an FDIC-assisted acquisition if, for example, actual losses related to the target bank's assets acquired are substantially less than expected at the time the P&A Agreement was entered into.

In addition, the FDIC bid process for failed depository institutions is competitive. We cannot provide any assurances that we will be successful in bidding for any target bank or for other failed depository institutions.

Our future earnings could be adversely affected by non-cash charges for goodwill impairment, if a future test of goodwill indicates that goodwill has been impaired.

As prescribed by Accounting Standards Codification ("ASC") Topic 350, "Intangibles — Goodwill and Other," we undertake an annual review of the goodwill asset balance reflected in our financial statements. We conduct an annual review in the fourth quarter of each year, unless there has been a triggering event prescribed by applicable accounting rules that warrants an earlier interim testing for possible goodwill impairment. In addition, after our annual review in the fourth quarter of 2010, we concluded there was no goodwill impairment as of such date. As of December 31, 2010, we had \$9.3 million in goodwill. Future goodwill impairment tests may result in future non-cash charges, which could adversely affect our earnings for any such future period.

Changes in the fair value of our securities may reduce our shareholders' equity and net income.

At December 31, 2010, \$263.8 million of our securities (at fair value) were classified as available-for-sale. At such date, the aggregate net unrealized gain on our available-for-sale securities was \$6.3 million. We increase or decrease shareholders' equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported shareholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

We monitor the fair value of our entire securities portfolio as part of our ongoing other than temporary impairment ("OTTI") evaluation process. No assurance can be given that we will not need to recognize OTTI charges related to securities in the future. In addition, as a condition to membership in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"), we are required to purchase and hold a certain amount of FHLB-Dallas stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB-Dallas. At December 31, 2010, we had stock in the FHLB-Dallas totaling approximately \$584,000. The FHLB-Dallas stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2010, we did not recognize an impairment charge related to our FHLB-Dallas stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB-Dallas may not require us to recognize an impairment charge with respect to such holdings.

We rely heavily on our management team and the loss of key officers may adversely affect operations.

Our success has been and will continue to be greatly influenced by the ability to retain existing senior management and, with expansion, to attract and retain qualified additional senior and middle management. C.R. Cloutier, President and Chief Executive Officer, and other executive officers have been instrumental in developing and managing our business. Over the past several years, we have had a number of changes in our senior management team, including the appointment of a new Chief Financial Officer, James McLemore; Chief Credit Officer, John Nichols; and the head of the retail division of the Bank, Carolyn Lay. Additionally, in February 2011, we hired a Chief Operating Officer, Gerald Reaux, and appointed a Chief Banking Officer, Troy Cloutier. We typically do not have employment agreements with our executive officers, including C.R. Cloutier. In addition, a formal management succession plan

has not been established.

Our participation in the CPP Transaction could also have an adverse effect on our ability to attract and retain qualified executive officers. The ARRA included amendments to the executive compensation provisions of the EESA under which the CPP was established, including extensive new restrictions on our ability to pay retention awards, bonuses and other incentive compensation during the period in which we have any outstanding securities held by the Treasury that were issued in the CPP Transaction. Many of the restrictions are not limited to our senior executives and cover other employees whose contributions to revenue and performance can be significant. The limitations may adversely affect our ability to recruit and retain these key employees in addition to our senior

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executive officers, especially if we are competing for talent against institutions that are not subject to the same CPP restrictions. While we have applied for funds under the Small Business Lending Fund (the "SBLF") to repay the amounts we received under the CPP Transaction, no assurance can be provided that our application under the SBLF will be approved or that similar regulations will not be adopted for SBLF participants. In addition, the Dodd-Frank Act requires federal bank regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1 billion. Such rules, when adopted, may adversely affect our management retention and limit our ability to promote our objectives through our compensation and incentive programs and, as a result, adversely affect our results of operations and financial position.

The full scope and impact of these limitations are uncertain. The Treasury adopted standards that implement certain compensation limitations, but these standards have not yet been broadly interpreted and remain, in many respects, ambiguous. The new and potential future legal requirements, including those under the CPP or that are adopted with respect to the SBLF or pursuant to the Dodd-Frank Act, may have unforeseen or unintended adverse effects on the financial services industry as a whole, including us. It will likely require significant time, effort and resources on our part to interpret and apply them. If any of our regulators believe that our response to new and future legal requirements and implementing standards does not fully comply with them, it could subject us to regulatory actions or otherwise adversely affect our management retention and, as a result, our results of operations and financial condition.

Loss of key employees may disrupt relationships with certain customers.

As a community bank, our business is primarily relationship-driven in that many of our key employees have extensive customer relationships. We generally do not have employment agreements with any of our key employees, including our executive officers. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While we believe our relationship with our key personnel is good, we cannot guarantee that all of our key personnel will remain with our organization. Loss of such key personnel, should they enter into an employment relationship with one of our competitors, could result in the loss of some of our customers.

A natural disaster, especially one affecting one of our market areas, could adversely affect us.

Since most of our business is conducted in Louisiana and Texas, most of our credit exposure is in those states. Historically, Louisiana and Texas have been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as hurricanes, floods and tornados. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, as uninsured or underinsured losses, including losses from business disruption, may reduce borrowers' ability to repay their loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters in our market areas could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our profitability is vulnerable to interest rate fluctuations.

Our profitability is dependent to a large extent on net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net

interest income. Conversely, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. For example, as securities in our investment portfolio have matured, they have been replaced by securities paying a lower yield. We expect this trend to continue during 2011. These changes in our investment portfolio have negatively impacted, and are expected to continue to negatively impact, our net interest margin. Furthermore, some of our variable interest rate loans have minimum fixed interest rates (“floors”) that are currently above the contractual variable interest rate. If

interest rates rise, the interest income from our variable interest rate loans with floors may not increase as quickly as interest expense on our liabilities, which would negatively impact our net interest income.

In periods of increasing interest rates, loan originations may decline, depending on the performance of the overall economy, which may adversely affect income from lending activities. Also, increases in interest rates could adversely affect the market value of fixed income assets. In addition, an increase in the general level of interest rates may affect the ability of certain borrowers to pay the interest and principal on their obligations.

Non-performing assets take significant time to resolve and adversely affect our results of operations and financial condition.

Non-performing assets adversely affect our net earnings in various ways. Until economic and market conditions improve, we expect to incur provisions for loan losses relating to an increase in non-performing assets. We generally do not record interest income on non-performing loans or other real estate owned, thereby adversely affecting our earnings, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we mark the related asset to the then fair market value of the collateral less estimated selling costs, which may result in a loss. An increase in the level of non-performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in non-performing assets.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our business, prospects, financial condition and results of operations.

We operate within a highly regulated environment and our business and results are affected by the regulations to which we are subject.

We operate within a highly regulated environment. The regulations to which we are subject will continue to have an impact on our operations and the degree to which we can grow and be profitable. Certain regulators, to which we are subject, have significant power in reviewing our operations and approving our business practices. In recent years the Bank, as well as other financial institutions, has experienced increased regulation and regulatory scrutiny, often requiring additional resources. In addition, investigations or proceedings brought by regulatory agencies may result in judgments, settlements, fines, penalties, or other results adverse to us. There is no assurance that any change to the regulatory requirements to which we are subject, or the way in which such regulatory requirements are interpreted or enforced, will not have a negative effect on our ability to conduct our business and our results of operations.

We rely heavily on technology and computer systems. The negative effects of computer system failures and unethical individuals with the technological ability to cause disruption of service could adversely affect our reputation and our ability to generate deposits.

Our ability to compete depends on our ability to continue to adapt and deliver technology on a timely and cost-effective basis to meet customers' demands for financial services. We provide our customers the ability to bank online and many customers now remotely submit deposits to us through remote-capture systems. The secure transmission of confidential information over the Internet is a critical element of these services. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches

and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Risks Relating to an Investment in Our Common Stock

Share ownership may be diluted by the issuance of additional shares of common stock in the future.

Our stock incentive plan provides for the granting of stock incentives to directors, officers, and employees. As of December 31, 2010, there were 53,918 shares issued under options and 20,847 shares in restricted stock granted under that plan. Likewise, approximately 579,000 shares, including shares issuable under currently outstanding options, may be issued in the future to directors, officers, and employees under our existing equity incentive plans. In addition, on January 9, 2009, the Company issued \$20.0 million in preferred stock to the Treasury in the CPP Transaction. As part of the CPP Transaction, we also granted the Treasury a 10-year stock purchase warrant. Under the warrant, the Treasury has the right to purchase 104,384 shares of our common stock at an exercise price of \$14.37 per share. It is probable that options and or/warrants will be exercised during their respective terms if the stock price exceeds the exercise price of the particular option or warrant. The incentive plan also provides that all issued options automatically and fully vest upon a change in control. If the options are exercised, share ownership will be diluted.

In addition, our articles of incorporation authorize the issuance of up to 30,000,000 shares of common stock and 5,000,000 shares of preferred stock, but do not provide for preemptive rights to the shareholders; therefore, shareholders will not automatically have the right to subscribe for additional shares. As a result, if we issue additional shares to raise additional capital or for other corporate purposes, you may be unable to maintain a pro rata ownership in the Company.

The holders of our preferred stock and trust preferred securities have rights that are senior to those of shareholders and that may impact our ability to pay dividends on our common stock and net income available to our common shareholders.

At December 31, 2010, we had outstanding \$15.5 million of trust preferred securities. These securities are senior to shares of common stock. As a result, we must make payments on our trust preferred securities before any dividends can be paid on our common stock; moreover, in the event of our bankruptcy, dissolution, or liquidation, the obligations outstanding with respect to our trust preferred securities must be satisfied before any distributions can be made to our shareholders. While we have the right to defer dividends on the trust preferred securities for a period of up to five years, if any such election is made, no dividends may be paid to our common or preferred shareholders during that time.

In addition, with respect to the \$20.0 million in Series A Preferred Stock outstanding that was issued to the Treasury in the CPP Transaction, we are required to pay cumulative dividends on the Series A Preferred Stock at an annual rate of 5.0% for the first five years and 9.0% thereafter, unless we redeem the shares earlier. Dividends paid on our Series

A Preferred Stock will also reduce the net income available to our common shareholders and our earnings per common share. We may not declare or pay dividends on our common stock or repurchase shares of our common stock without first having paid all accrued cumulative preferred dividends that are due. Until January 2012, we also may not increase our per share common stock dividend rate or repurchase shares of our common shares without the Treasury's consent, unless the Treasury has transferred to third parties all the Series A Preferred Stock originally issued to it. We have applied to participate in the SBLF and, if approved, will issue new shares of preferred stock to the Treasury. We will use the net proceeds from the sale of the shares of preferred stock to repurchase the outstanding shares of Series A Preferred Stock. Any new shares of preferred stock issued in connection with the

SBLF will require us to pay dividends at a rate that will be dependent on our volume of qualified small business loans.

There can be no assurance whether or when the Series A Preferred Stock can be redeemed or whether or when the related warrant can be repurchased.

Subject to approval of our regulators, we generally have the right to repurchase the shares of Series A Preferred Stock and the associated warrant issued to the Treasury in the CPP Transaction. We have applied to participate in the SBLF and, if approved, will issue new shares of preferred stock to the Treasury and use the net proceeds from the sale thereof to repurchase the outstanding shares of Series A Preferred Stock. However, there can be no assurance that our application will be approved and, if we are not approved to participate under the SBLF, as to when the Series A Preferred Stock and the warrant will be repurchased, if at all. As a result, we will remain subject to the uncertainty of additional future changes to the CPP, which could put us at a competitive disadvantage. Until such time as the Series A Preferred Stock and the warrant are repurchased, we will remain subject to the terms and conditions of those instruments, which, among other things, require us to obtain regulatory approval to repurchase or redeem our common stock or our other preferred stock or increase the annual aggregate dividends on our common stock over \$0.28 per share, except in limited circumstances.

Holders of the Series A Preferred Stock may, under certain circumstances, have the right to elect two directors to our board of directors.

In the event that we fail to pay dividends on the Series A Preferred Stock for an aggregate of six quarterly dividend periods or more, the authorized number of directors then constituting our board of directors will be increased by two. Holders of the Series A Preferred Stock, together with the holders of any outstanding parity stock with the same voting rights, will be entitled to elect the two additional members of the board of directors at the next annual meeting (or at a special meeting called for this purpose) and at each subsequent annual meeting until all accrued and unpaid dividends for all past dividend periods have been paid in full.

Only a limited trading market exists for our common stock, which could lead to price volatility.

Our common stock is listed for trading on the NYSE Amex under the trading symbol "MSL," but there is low trading volume in our common stock. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which might occur in a more active trading market of our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue.

Our directors and executive management own a significant number of shares of stock, allowing further control over business and corporate affairs.

Our directors and executive officers beneficially own approximately 2.1 million shares, or 21.2%, of our outstanding common stock as of December 31, 2010. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on our business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval. In deciding on how to vote on certain proposals, our shareholders should be aware that our directors and executive officers may have interests that are different from, or in addition to, the interests of our shareholders generally.

Provisions of our articles of incorporation and by-laws, Louisiana law, and state and federal banking regulations, could delay or prevent a takeover by a third party.

Our articles of incorporation and by-laws could delay, defer, or prevent a third party takeover, despite possible benefit to the shareholders, or otherwise adversely affect the price of our common stock. Our governing documents:

- permit directors to be removed by shareholders only for cause and only upon an 80% vote;
- require 80% of the voting power for shareholders to amend the by-laws, call a special meeting, or amend the articles of incorporation, in each case if the proposed action was not approved by the Board;
- authorize a class of preferred stock that may be issued in series with terms, including voting rights, established by the Board without shareholder approval;
- authorize approximately 30 million shares of common stock and 5 million shares of preferred stock that may be issued by the Board without shareholder approval;

- classify our Board with staggered three year terms, preventing a change in a majority of the Board at any annual meeting;
- require advance notice of proposed nominations for election to the Board and business to be conducted at a shareholder meeting; and
- require 80% of the voting power for shareholders to approve business combinations not approved by the Board.

These provisions would likely preclude a third party from removing incumbent directors and simultaneously gaining control of the Board by filling the vacancies thus created with its own nominees. Under the classified Board provisions, it would take at least two elections of directors for any individual or group to gain control of the Board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control. These provisions may have the effect of delaying consideration of a shareholder proposal until the next annual meeting unless a special meeting is called by the Board or the chairman of the Board. Moreover, even in the absence of an attempted takeover, the provisions make it difficult for shareholders dissatisfied with the Board to effect a change in the Board's composition, even at annual meetings.

Also, we are subject to the provisions of the Louisiana Business Corporation Law ("LBCL"), which provides that we may not engage in certain business combinations with an "interested shareholder" (generally defined as the holder of 10.0% or more of the voting shares) unless (1) the transaction was approved by the Board before the interested shareholder became an interested shareholder or (2) the transaction was approved by at least two-thirds of the outstanding voting shares not beneficially owned by the interested shareholder and 80% of the total voting power or (3) certain conditions relating to the price to be paid to the shareholders are met.

The LBCL also addresses certain transactions involving "control shares," which are shares that would have voting power with respect to the Company within certain ranges of voting power. Control shares acquired in a control share acquisition have voting rights only to the extent granted by a resolution approved by our shareholders. If control shares are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, shareholders of the issuing public corporation have dissenters' rights as provided by the LBCL.

Our future ability to pay dividends and repurchase stock is subject to restrictions.

Since we are a holding company with no significant assets other than the Bank, we have no material source of income other than dividends received from the Bank. Therefore, our ability to pay dividends to our shareholders will depend on the Bank's ability to pay dividends to us. Moreover, banks and bank holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. We are also restricted from paying dividends if we have deferred payments of the interest on, or an event of default has occurred with respect to, our trust preferred securities or Series A Preferred Stock. Additionally, terms and conditions of our outstanding shares of preferred stock place certain restrictions and limitations on our common stock dividends and repurchases of our common stock.

A shareholder's investment is not an insured deposit.

An investment in our common stock is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. Your investment in our common stock will be subject to investment risk and you may lose all or part of your investment.

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

We lease our principal executive and administrative offices and principal facility in Lafayette, Louisiana under a lease expiring March 31, 2017. We have two 5-year renewal options thereafter that we may exercise. In addition to our principal facility, we also have eight other branches located in Lafayette, Louisiana, three in New Iberia, Louisiana, three in Baton Rouge, Louisiana, two in Lake Charles, Louisiana, two in Houma, Louisiana, and one banking office in each of the following Louisiana cities: Breaux Bridge, Cecilia, Larose, Jeanerette, Opelousas, Morgan City, Jennings, Sulphur, and Thibodaux. Seventeen of these offices are owned and ten are leased.

In our Texas market area, we have two full service branches located in Beaumont, Texas, both of which are owned. Our additional full service branches in the Texas market area are located in Vidor, College Station, Houston, and Conroe. The Company also operates a loan production office located in Conroe, Texas. Of these offices, three are owned and two are leased.

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 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 4 – (Removed and Reserved)

Executive Officers of the Registrant

The names, ages as of December 31, 2010, and positions of our executive officers are listed below along with their business experience during the past five years.

C. R. Cloutier, 63 – President, Chief Executive Officer and Director of the Company and the Bank since 1984.

James R. McLemore, 51–Senior Executive Vice President and Chief Financial Officer for the Company and the Bank since July 2009. Prior to joining the Company and the Bank, Mr. McLemore served as Executive Vice President and Chief Financial Officer of Security Bank Corporation from 2002 until July 2009. In July 2009, subsequent to Mr. McLemore’s departure, the six subsidiary banks of Security Bank Corporation were closed and the FDIC was appointed receiver of the banks. Security Bank Corporation subsequently filed for bankruptcy in August of 2009.

John Nichols, 55 – Executive Vice President and Chief Credit Officer for the Bank since July 2010. Nichols, who previously served as Senior Vice President and President of the bank's West Louisiana Region, based in Lake Charles. He will continue to be a member of the Lake Charles market's Regional Loan Committee. Nichols joined the Bank in 2001, having previously worked as Senior Vice President and Business Banking Manager for Bank One (now JPMorgan Chase) in Lake Charles and Alexandria.

Karen L. Hail, 57 – Senior Executive Vice President and Director of Asset Procurement for the Bank since April 2010; Senior Executive Vice President and Chief Operating Officer of the Bank since 2002; Secretary and Treasurer of the Company since 1984; and Director of the Bank since 1988. Effective April 1, 2010, Ms. Hail has served as Senior Executive Vice President and Director of Asset Procurement for the Bank. As a result of this new position, Ms. Hail no longer serves as Chief Operating Officer of the Company. In addition, Ms. Hail was not nominated by the Board for re-election as a Director at the 2011 Annual Meeting.

Effective February 15, 2011, we implemented a new management structure designed to increase shareholder value and support our organic growth. This new structure included the appointment of two new executive officers, information for which is provided below.

Gerald “Jerry” Reaux Jr., 50 – Chief Operating Officer of the Company and the Bank since February 2011. Prior to joining MidSouth, Mr. Reaux served three years as Chief Executive Officer of Tri-Parish Bancshares, Ltd. in Eunice, Louisiana and also served as the Vice Chairman for seven years. He has over 28 years of banking experience. Mr. Reaux was nominated by the Board for election as a director of the Company and the Bank and, if elected, is expected to succeed Dr. J.B. Hargroder as Vice Chairman of the Board of Directors of the Company in May of 2011 after the shareholders’ meeting.

Troy Cloutier, 37 – Chief Banking Officer and Senior Executive Vice President of the Bank since February 2011. Mr. Cloutier has been with MidSouth Bank for 18 years most recently serving as Senior Vice President and Regional President for the South and East Louisiana Regions in addition to managing due diligence for the Bank’s mergers and acquisitions team. Troy Cloutier is the son of C.R. Cloutier.

All executive officers 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 Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

As of February 28, 2011, there were 842 common shareholders of record. The Company's common stock trades on the NYSE AMEX under the symbol "MSL." The high and low sales price for the past eight quarters has been provided in the Selected Quarterly Financial Data tables that are included with this filing under Item 8 and is incorporated herein by reference.

Cash dividends totaling \$2.7 million were declared to common shareholders during 2010. The regular quarterly dividend of \$0.07 per share was paid for all four quarters of 2010, for a total of \$0.28 per share for the year. Cash dividends totaling \$1.8 million were declared to common shareholders during 2009. A quarterly dividend of \$0.07 per share was paid for each quarter of 2009, for a total of \$0.28 per share for the year.

Under the Louisiana law, we may not pay a dividend if (i) we are insolvent or would thereby be made insolvent, or (ii) the declaration or payment thereof would be contrary to any restrictions contained in our articles of incorporation. Our primary source of funds for dividends is the dividends we receive from the Bank; therefore, our ability to declare dividends is highly dependent upon future earnings, financial condition, and results of operation of the Bank as well as applicable legal restrictions on the Bank's ability to pay dividends and other relevant factors. The Bank currently has the ability to declare dividends to us without prior approval of our primary regulators. However, the Bank's ability to pay dividends to us will be prohibited if the result would cause the Bank's regulatory capital to fall below minimum requirements. Additionally, dividends to us cannot exceed a total of the Bank's current year and prior two years' earnings, net of dividends paid to us in those years.

Pursuant to the terms of the agreements between us and the Treasury governing the CPP Transaction, we may not declare or pay any dividend or make any distribution on our common stock other than (i) regular quarterly cash dividends not exceeding an annual aggregate of \$0.28 per share; (ii) dividends payable solely in shares of our common stock; and (iii) dividends or distributions of rights of junior stock in connection with a shareholders' rights plan. Further, the terms of our trust preferred securities prohibit us from paying dividends on our common stock during any period in which we have deferred interest payments on the trust preferred securities.

Share Repurchases

Pursuant to the terms of the agreements between us and the Treasury governing the CPP Transaction, we are currently prohibited from repurchasing shares of our common stock. As a result, we did not repurchase any shares of our common stock during the year ended December 31, 2010.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2010, the Company had outstanding stock options and restricted stock granted under our incentive compensation plans, which were approved by the Company's shareholders. Provided below is information regarding the Company's equity compensation plans under which the Company's equity securities are authorized for issuance as of December 31, 2010, subject to the Company's available authorized shares.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	74,765	\$ 12.84	504,153
Equity compensation plans not approved by security holders	-	-	-
Total	74,765	\$ 12.84	504,153

The following graph compares the cumulative total return on our common stock over a period beginning December 31, 2005 with (1) the cumulative total return on the stocks included in the Russell 3000 and (2) the cumulative total return on the stocks included in the SNL Securities, LC (“SNL”) \$500M - \$1B and the SNL \$1B - \$5B Bank Index. The comparison assumes an investment in our common stock on the indices of \$100 at December 31, 2005 and assumes that all dividends were reinvested during the applicable period.

MidSouth Bancorp, Inc

Index	Period Ending					
	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
MidSouth Bancorp, Inc.	100.00	145.66	115.75	64.59	71.97	81.07
Russell 3000	100.00	115.71	121.66	76.27	97.89	114.46
SNL Bank \$500M-\$1B	100.00	113.73	91.14	58.40	55.62	60.71
SNL Bank \$1B-\$5B	100.00	115.72	84.29	69.91	50.11	56.81

The stock price information shown above is based on historical data and should not be considered indicative of future price performance.

Item 6 – Five Year Summary of Selected Financial Data

	At and For the Year Ended December 31,									
	2010	2009	2008	2007	2006					
	(dollars in thousands, except per share data)									
Interest income	\$ 48,124	\$ 50,041	\$ 55,472	\$ 57,139	\$ 50,235					
Interest expense	(7,395)	(10,220)	(16,085)	(20,534)	(17,692)					
Net interest income	40,729	39,821	39,387	36,605	32,543					
Provision for loan losses	(5,020)	(5,450)	(4,555)	(1,175)	(850)					
Noninterest income	14,857	15,046	15,128	14,259	12,379					
Noninterest expenses	(43,818)	(44,693)	(43,974)	(38,634)	(33,124)					
Earnings before income taxes	6,748	4,724	5,986	11,055	10,948					
Income tax expense	(968)	(125)	(449)	(2,279)	(2,728)					
Net earnings	\$ 5,780	\$ 4,599	\$ 5,537	\$ 8,776	\$ 8,220					
Preferred dividend requirement	(1,198)	(1,175)	-	-	-					
Net earnings available to common shareholders	\$ 4,582	\$ 3,424	\$ 5,537	\$ 8,776	\$ 8,220					
Basic earnings per common share ¹	\$ 0.47	\$ 0.51	\$ 0.84	\$ 1.34	\$ 1.26					
Diluted earnings per common share ¹	\$ 0.47	\$ 0.51	\$ 0.83	\$ 1.32	\$ 1.24					
Dividends per common share ¹	\$ 0.28	\$ 0.28	\$ 0.32	\$ 0.29	\$ 0.22					
Total loans	\$ 580,812	\$ 585,042	\$ 608,955	\$ 569,505	\$ 499,046					
Total assets	1,002,339	972,142	936,815	854,056	805,022					
Total deposits	800,772	773,285	766,704	733,517	716,180					
Cash dividends on common stock	2,721	1,846	2,120	1,920	1,463					
Long-term obligations	15,465	15,465	15,465	15,465	15,465					
Selected ratios:										
Loans to assets	58.00	%	60.18	%	65.00	%	66.68	%	61.99	%
Loans to deposits	72.53	%	75.66	%	79.43	%	77.64	%	69.68	%
Deposits to assets	79.89	%	79.54	%	81.84	%	85.89	%	88.96	%
Return on average assets	0.47	%	0.37	%	0.60	%	1.06	%	1.08	%
Return on average common equity	3.92	%	4.35	%	7.79	%	13.83	%	14.68	%

¹ On October 23, 2007, the Company paid a 5% stock dividend to common shareholders of record on September 21, 2007. On October 23, 2006, a 25% stock dividend was paid to common shareholders of record on September 29, 2006.

Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion and analysis is to focus on significant changes in the financial condition of the Company and on its results of operations during 2010, 2009, and 2008. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this annual report on Form 10-K, particularly the consolidated financial statements and related notes appearing in Item 8.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements included in this report. The accounting principles we follow and the methods of applying these principles conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking practices. Our most critical accounting policy relates to the 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 our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the estimates would be updated and additional provisions for loan losses may be required. See Asset Quality – Allowance for Loan Losses.

Another of our critical accounting policies relates to goodwill and intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is evaluated for impairment annually or more frequently if deemed necessary. 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.

Given the current instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses and goodwill impairment could change in the near-term or could result in impairment going forward.

Overview

We are a bank holding company, headquartered in Lafayette, Louisiana, that through our community banking subsidiary, MidSouth Bank, N.A., operates 34 offices in south Louisiana and southeast Texas. We had approximately \$1.0 billion in consolidated assets as of December 31, 2010. We derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Approximately 75.1% of our total deposits are interest-bearing. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread.

There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We maintain this allowance by charging a provision for loan losses against our operating earnings for each period. We have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses. Our financial performance for the years ended December 31, 2009 and 2010 were, and continue to be, significantly impacted by the disruptions in the national economy and the resulting financial uncertainty that has severely impacted the banking industry. While we believe our market areas have fared better than the national economy during this most recent economic downturn, the economic uncertainty and difficult real estate markets had an impact on our loan losses, loan demand and our interest rate spread.

In addition to earning interest on our loans and investments, we earn income through fees and other charges to our customers. We have also included a discussion of the various components of this noninterest income, as well as of our noninterest expense.

We plan to continue to grow both organically and through acquisitions, including potential expansion into new market areas. To support our growth, shareholders approved an increase in our authorized shares of common stock from 10 million to 30 million shares at our annual shareholders' meeting in May 2010. Additionally, in December

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2009, we completed a public offering of approximately 3.1 million shares of our common stock for which we received net proceeds of approximately \$37.3 million (including shares issued upon the underwriter's exercise of their over-allotment option in January 2010). As a result of the offering, we cut in half the number of shares underlying the warrants we issued to the Treasury as part of the CPP Transaction. We believe our current financial condition, coupled with our scalable operational capabilities will allow us to act upon growth opportunities in the current banking environment.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying or incorporated by reference in this report. We encourage you to read this discussion and analysis in conjunction with our financial statements and the other statistical information included and incorporated by reference in this report.

Results of Operations

Net income available to common shareholders for the year ended December 31, 2010 totaled \$4.6 million compared to \$3.4 million for the year ended December 31, 2009, an increase of \$1.2 million, or 33.8%. Diluted earnings per share were \$0.47 for the year ended December 31, 2010, compared to \$0.51 for 2009. Although net earnings increased, diluted earnings per share decreased due to the common shares issued as a result of our capital offering in December 2009. Dividends recorded on MidSouth's Fixed Rate Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") issued under the CPP reduced net earnings available to common shareholders by \$1.2 million for each of the years ended December 31, 2010 and December 31, 2009.

Total consolidated assets increased \$30.2 million, or 3.1%, from \$972.1 million at December 31, 2009, to \$1.0 billion at December 31, 2010. The increase in assets resulted primarily from a \$27.5 million growth in deposits over the same period, from \$773.3 million to \$800.8 million. The majority of the growth was in noninterest-bearing deposits and resulted primarily from new commercial account relationships added in 2010. Total loans were \$580.8 million at December 31, 2010, a decrease of \$4.2 million, or 0.72%, from the \$585.0 million reported as of December 31, 2009. Although we experienced increased loan activity in the second and third quarters of 2010, commercial and consumer customers continued to pay down debt and resulted in decreased loan volume year-over year.

MidSouth's leverage capital ratio increased to 14.00% at December 31, 2010 from 13.95% at December 31, 2009. Tier 1 risk-weighted capital and total risk-weighted capital ratios were 21.11% and 22.36% at December 31, 2010, compared to 19.34% and 20.54% at December 31, 2009, respectively. The Tier 1 common equity ratio at December 31, 2010 was 10.52%. Return on average common equity was 3.92% for 2010 compared to 4.35% for 2009. Return on average assets was 0.47% compared to 0.37% for the same periods, respectively.

The \$1.2 million increase in net earnings available to common shareholders in 2010 resulted primarily from a \$908,000 increase in net interest income, which was driven by a \$2.8 million reduction in interest expense. An \$875,000 decrease in non-interest expense also contributed to the improvement in earnings, with significant decreases recorded in salary and benefits costs (\$1.4 million), occupancy expense (\$561,000), and FDIC premiums (\$353,000). The decrease in salaries and benefit costs resulted primarily from a \$1.2 million reduction in group health insurance expense as our partially self-funded group health insurance plan experienced a lower amount of insurance claims in 2010. The reduction in occupancy expense resulted primarily from a \$265,000 decrease in depreciation cost and a \$139,000 decrease in lease expense. These decreases were partially offset by increases in other non-interest expense categories, including \$451,000 in data processing expense, \$274,000 in expenses on other real estate owned, and \$235,000 in ATM/Debit card processing expense. Additionally, the provision for loan loss decreased \$430,000 in year-over-year comparison. The earnings improvement from increased net interest income combined with decreases in non-interest expense and the provision for loan losses was partially offset by an \$843,000 increase in tax expense,

an \$189,000 decrease in non-interest income, and a \$23,000 increase in preferred dividends.

Nonaccrual loans totaled \$19.6 million as of December 31, 2010, compared to \$16.2 million as of December 31, 2009. The \$3.4 million increase in nonaccruals in year-over-year comparison resulted primarily from a \$3.4 million commercial development loan in the Texas market added in the third quarter of 2010. Of the remaining \$16.2 million in nonaccrual loans, \$10.4 million, or 64.2%, represented two large commercial real estate loan relationships in the Baton Rouge market. Loans past due 90 days or more and still accruing totaled \$66,000 at December 31, 2010, a decrease of \$312,000 from December 31, 2009. Total nonperforming assets to total assets were 2.09% at

December 31, 2010, compared to 1.79% at December 31, 2009. Loans classified as troubled debt restructurings during the fourth quarter of 2010 consisted primarily of two small commercial loans totaling \$640,000. The two loans were classified as trouble debt restructurings due to a reduction in monthly payments granted to the borrowers.

Allowance coverage for nonperforming loans was 44.81% at December 31, 2010, compared to 48.28% at December 31, 2009. Year-to-date net charge-offs were 0.72% of total loans as of December 31, 2010 compared to 0.86% as of December 31, 2009. The allowance coverage for nonperforming loans ratio declined in 2010 despite an increase in the ALLL/total loans ratio from 1.37% at December 31, 2009 to 1.52% at December 31, 2010. The decreased coverage ratio for nonperforming loans resulted primarily from loans placed on nonaccrual status in 2010 that did not require specific reserves due to sufficient underlying collateral values.

Table 1
Summary of Return on Equity and Assets

	2010	2009	2008
Return on average assets	0.47%	0.37%	0.60%
Return on average common equity	3.92%	4.35%	7.79%
Dividend payout ratio on common stock	59.57%	54.90%	38.55%
Average equity to average assets	13.88%	10.43%	7.75%

Earnings Analysis

Net Interest Income

Our primary source of earnings is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and other 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. Our net interest margin on a taxable equivalent basis, which is net interest income as a percentage of average earning assets, was 4.72%, 4.88%, and 4.93% for the years ended December 31, 2010, 2009, and 2008, respectively. Tables 2 and 3 analyze the changes in net interest income in the years ended December 31, 2010, 2009, and 2008.

During 2009 and 2010, securities in our investment portfolio that have matured have generally been replaced by new securities that, as a result of the current interest rate environment, pay us a lower yield compared to the matured securities they are replacing. As a result, during both 2009 and 2010 we experienced some contraction in our net interest margin and expect to continue to experience additional contraction into 2011. However, because of our base of core deposits described below under "Funding Sources – Deposits," we expect our net interest margin to remain strong.

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

	Year Ended December 31,								
	2010			2009			2008		
	Average Volume	Interest	Average Yield/ Rate	Average Volume	Interest	Average Yield/ Rate	Average Volume	Interest	Average Yield/ Rate
Assets									
Investment securities¹									
Taxable	\$ 153,545	\$ 3,699	2.41 %	\$ 101,556	\$ 3,905	3.85 %	\$ 97,363	\$ 4,381	4.50 %
Tax exempt ²	109,020	5,598	5.13 %	115,176	6,159	5.35 %	112,801	6,100	5.41 %
Total investment securities	262,565	9,297	3.54 %	216,732	10,064	4.64 %	210,164	10,481	4.99 %
Federal funds sold	3,328	7	0.21 %	17,617	37	0.21 %	29,406	669	2.24 %
Time and interest bearing deposits in other banks	41,999	274	0.65 %	20,222	274	1.35 %	15,892	447	2.81 %
Other investments	5,007	148	2.96 %	4,445	130	2.92 %	4,172	136	3.26 %
Loans									
Commercial and real estate	489,799	32,201	6.57 %	483,626	31,993	6.62 %	461,382	35,404	7.67 %
Installment	94,391	7,828	8.29 %	109,963	9,349	8.50 %	113,973	10,128	8.89 %
Total loans³	584,190	40,029	6.85 %	593,589	41,342	6.96 %	575,355	45,532	7.91 %
Total earning assets	897,089	49,755	5.55 %	852,605	51,847	6.08 %	834,989	57,265	6.86 %
Allowance for loan losses	(8,050)			(7,650)			(5,910)		
Nonearning assets	92,732			89,579			88,808		
Total assets	\$ 981,771			\$ 934,534			\$ 917,887		
Liabilities and shareholders' equity									
NOW, money market, and savings	\$ 466,844	\$ 3,562	0.76 %	\$ 439,655	\$ 4,632	1.05 %	\$ 453,531	\$ 7,958	1.75 %
Time deposits	122,324	1,906	1.56 %	141,159	3,471	2.46 %	146,272	5,952	4.07 %
Total interest-bearing deposits	589,168	5,468	0.93 %	580,814	8,103	1.40 %	599,803	13,910	2.32 %
Borrowings:									
Securities sold under	49,054	948	1.93 %	44,318	1,070	2.41 %	33,506	822	2.45 %

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agreements to repurchase									
Federal funds purchased	243	2	0.82 %	622	5	0.80 %	2,493	53	2.13 %
Other borrowings	682	3	0.44 %	4,625	23	0.50 %	4,943	81	1.64 %
Total borrowings	49,979	953	1.91 %	49,565	1,098	2.22 %	40,942	956	2.30 %
Junior subordinated debentures	15,465	974	6.30 %	15,465	1,019	6.50 %	15,465	1,219	7.75 %
Total interest-bearing liabilities	654,612	7,395	1.13 %	645,844	10,220	1.58 %	656,210	16,085	2.45 %
Demand deposits	184,419			185,757			185,113		
Other liabilities	6,457			5,468			5,466		
Stockholders' equity	136,283			97,465			71,098		
Total liabilities and stockholders' equity	\$ 981,771			\$ 934,534			\$ 917,887		
Net interest income and net interest spread		\$ 42,360	4.42 %		\$ 41,627	4.50 %		\$ 41,180	4.41 %
Net yield on interest-earning assets			4.72 %			4.88 %			4.93 %

1 Securities classified as available-for-sale are included in average balances and interest income figures and reflect interest earned on such securities.

2 Interest income of \$1,631,000 for 2010, \$1,806,000 for 2009, and \$1,792,000 for 2008 is added to interest earned on tax-exempt obligations to reflect tax-equivalent yields using a 34% tax rate.

3 Interest income includes loan fees of \$3,150,000 for 2010, \$3,184,000 for 2009, and \$3,801,000 for 2008. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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

	2010 Compared to 2009			2009 Compared to 2008		
	Total Increase (Decrease)	Change Attributable to Volume	Rates	Total Increase (Decrease)	Change Attributable to Volume	Rates
Taxable-equivalent interest earned on:						
Investment securities						
Taxable	\$ (206)	\$ 1,566	\$ (1,772)	\$ (476)	\$ 183	\$ (659)
Tax-exempt	(561)	(322)	(239)	59	127	(68)
Federal funds sold	(30)	(30)	-	(632)	(192)	(440)
Time and interest-bearing deposits in other banks						
	-	194	(194)	(173)	102	(275)
Other investments	18	17	1	(6)	9	(15)
Loans, including fees	(1,313)	(650)	(663)	(4,190)	1,407	(5,597)
Total	(2,092)	775	(2,867)	(5,418)	1,636	(7,054)
Interest paid on:						
Interest-bearing deposits	(2,635)	115	(2,750)	(5,807)	(428)	(5,379)
Securities sold under agreements to repurchase						
	(122)	106	(228)	248	261	(13)
Federal funds purchased	(3)	(3)	-	(48)	(26)	(22)
Other borrowings	(20)	(18)	(2)	(58)	(5)	(53)
Junior subordinated debentures						
	(45)	-	(45)	(200)	-	(200)
Total	(2,825)	200	(3,025)	(5,865)	(198)	(5,667)
Taxable-equivalent net interest income	\$ 733	\$ 575	\$ 158	\$ 447	\$ 1,834	\$ (1,387)

NOTE: Changes due to both volume and rate have generally been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts to the changes in each.

Net interest income on a taxable-equivalent basis increased \$733,000 for 2010 over 2009, as a \$2.8 million reduction in interest expense offset a \$2.1 million decrease in interest income. The decrease in interest income on earning assets resulted primarily from the combination of a \$9.4 million decrease in the average volume of loans, combined with an 11 basis point decline in the average yield on loans, from 6.96% at December 31, 2009 to 6.85% at December 31, 2010. The decline in loan volume resulted primarily from payoffs in the commercial, financial, and agricultural portfolio. Loan yields declined as matured loans re-priced in the lower rate environment and new loan rates reflected competitive market pricing. Additionally, interest income on investment securities for 2010 decreased as a 110 basis point reduction in the average yield earned on investment securities offset the impact of a \$45.8 million increase in the average volume of investment securities. The reduction in the average yield on investment securities from 4.64% at December 31, 2009 to 3.54% at December 31, 2010 resulted from the reinvestment of excess cash in short-term U.S. Agency bonds at lower yields. Interest expense decreased primarily due to a 47 basis point reduction in the average rate paid on interest-bearing deposits, from 1.40% at December 31, 2009 to 0.93% at December 31,

2010. Additionally, interest paid on securities sold under agreements to repurchase and on the junior subordinated debentures decreased due to rate reductions. As a result, the taxable-equivalent net interest margin declined 16 basis points, from 4.88% for the year ended December 31, 2009 to 4.72% for the year ended December 31, 2010.

Included in 2010 taxable equivalent net interest income, is a \$298,000 one-time recovery of interest income on a \$3.9 million nonaccrual commercial loan that was paid off in December 2010. Net of the \$298,000 recovery of interest income, the taxable equivalent margin would have decreased 19 basis points in prior year comparison.

Net interest income on a taxable-equivalent basis increased \$447,000 for 2009 over 2008. The \$447,000 increase in taxable-equivalent net interest income resulted primarily from a \$5.9 million decrease in interest expense on interest-bearing liabilities, offset by a \$5.4 million decrease in taxable-equivalent interest income on earning assets. Interest expense on interest-bearing liabilities decreased primarily due to a 92 basis point decrease in the average rate paid on interest-bearing deposits, from 2.32% at December 31, 2008 to 1.40% at December 31, 2009. Additionally, the average volume of interest bearing deposits declined \$19.0 million, from \$599.8 million at December 31, 2008 to \$580.8 million at December 31, 2009. Increased interest expense on securities sold under agreements to repurchase in 2009, due to a \$10.8 million increase in average volume, was offset by a decrease in interest expense due to rate reductions on borrowings and the junior subordinated debentures.

A 78 basis points decrease in the average yield on earning assets, from 6.86% at December 31, 2008 to 6.08% at December 31, 2009, offset a \$17.6 million, or 2.1%, increase in the average volume of earning assets, from \$835.0 million at December 31, 2008, to \$852.6 million at December 31, 2009, to net a \$5.4 million decrease in taxable-equivalent interest income. Average loan yields decreased 95 basis points, from 7.91% at December 31, 2008, to 6.96% at December 31, 2009, primarily due to maturing and repricing loans adjusting to lower rates of interest in the current environment. An increase in loan volume of \$18.2 million, or 3.2%, partially offset the decrease in rates and resulted in a \$4.2 million decrease in interest earned on loans for 2009. Taxable-equivalent yields also fell 35 basis points on investment securities, from 4.99% at December 31, 2008 to 4.64% at December 31, 2009, as new purchases were added at much lower rates in 2009.

Noninterest Income

Noninterest income totaled \$14.9 million at December 31, 2010, compared to \$15.0 million at December 31, 2009 and \$15.1 million at December 31, 2008. Service charges and fees on deposit accounts represent the primary source of noninterest income for the Company. Income from service charges and fees on deposit accounts, including insufficient funds fees (“NSF” fees), decreased \$716,000 in 2010 compared to a \$124,000 increase in 2009. The decrease in 2010 was primarily due to a \$674,000 reduction of NSF fee income, which resulted from fewer NSF items processed. As discussed below, we believe this was primarily driven by the changes implemented in our policies in connection with the changes in Regulation E in 2010. Income on ATM and debit card transactions increased \$294,000 in 2010 and \$327,000 in 2009 as the result of an increase in electronic transactions processed. Other noninterest income increased \$233,000 in 2010 and decreased \$533,000 in 2009. The \$233,000 increase in 2010 resulted primarily from a \$178,000 impairment charge on an equity security recorded in 2009. The \$533,000 decrease in 2009 included the \$178,000 impairment charge, a \$120,000 decrease in income from a third party investment advisory firm, and a \$131,000 one-time payment recorded in other non-interest income in 2008. The one-time payment resulted from VISA’s mandatory redemption of a portion of its Class B shares outstanding in connection with its initial public offering.

During 2010, we addressed changes in Regulation E, which became effective on August 15, 2010. Regulation E governs the treatment of electronic funds transfers and the Bank’s ability to collect fees for overdrafts involving ATM and point of sale debit transactions. The amendments to Regulation E required that we give our customers the option to continue to receive approval on and payment of point-of-sale transactions only if they have chosen overdraft protection. As a result of offering the required option, 82.0% of our customers affected opted to continue to access a form of overdraft protection for approval on and payment of point-of-sale transactions. The changes in Regulation E did have an impact on overdraft fees earned on electronic transactions in 2010 and could further reduce overdraft fees earned in future periods.

Noninterest Expense

Total noninterest expense decreased 2.0%, or \$875,000, from 2009 to 2010, and increased 1.6%, or \$719,000, from 2008 to 2009. Salaries and employee benefits decreased \$1.4 million, or 6.4%, in 2010 and the total of full-time equivalent (“FTE”) employees was 389, a decrease of 27 employees from 416 FTE employees at year-end 2009. Salary and benefit costs decreased in 2010 primarily due to a \$1.2 million reduction in group health insurance expense as MidSouth’s partially self-funded group health insurance plan experienced a lower amount of insurance claims in 2010. Salaries and employee benefits increased \$792,000, or 3.8%, in 2009, primarily due to a \$570,000

increase in group health insurance costs which was partially offset by a decrease of 3 employees from the 419 FTE employees at year-end 2008.

Occupancy expenses decreased \$561,000 in 2010 and increased \$601,000 in 2009. The reduction in occupancy expense in 2010 resulted primarily from a \$265,000 decrease in depreciation cost and a \$139,000 decrease in lease expense. The \$601,000 increase in 2009 resulted primarily from a \$123,000 increase in lease expense and a \$353,000 increase in depreciation expense primarily as a result of the 2008 renovation of our corporate headquarters. Premises and equipment additions and leasehold improvements totaled approximately \$1.3 million, \$1.8 million, and \$4.8 million for the years 2010, 2009, and 2008, respectively.

ATM and debit card processing fees increased \$235,000 in 2010 and decreased \$121,000 in 2009. The net change in both 2010 and 2009 are primarily due to fluctuations in fraud losses on electronic transactions.

Data processing costs, included in other non-interest expense, increased \$451,000 in 2010 and decreased \$117,000 in 2009. The increase in 2010 is primarily attributed to a \$230,000 one-time accrual for a data processing contract cancellation expensed in the third quarter of 2010. Other non-interest expense increases in 2010 included \$274,000 in expenses on other real estate owned and \$179,000 in costs associated with a customer relationship management system. These increased non-interest expenses were partially offset by a \$353,000 decrease in FDIC fees. The reduction in FDIC fees was due to a one-time assessment of approximately \$416,000 paid in the second quarter of 2009.

Efforts to reduce controllable expenses in 2009 resulted in significant reductions in marketing costs (\$974,000), professional fees (\$309,000), corporate development (\$123,000), training expenses (\$155,000), and other noninterest expense categories. These noninterest expense reductions offset increased FDIC premiums of \$1,178,000, or a 232.8% increase over the \$506,000 in premiums expensed in 2008.

Income Taxes

Income tax expense increased by \$843,000 in 2010 and decreased by \$324,000 in 2009 and approximated 14%, 3%, and 8% of income before taxes in 2010, 2009 and 2008, respectively. The lower effective tax rate was due primarily to the impact of nontaxable municipal interest on the statutory tax rate. Additionally, the lower tax rates for 2009 and 2008 resulted from recognition of the Work Opportunity Tax Credit under the Katrina Emergency Tax Relief Act of 2005, which reduced income tax expense by \$108,000 in 2009 and \$225,000 in 2008. The notes to the consolidated financial statements provide additional information regarding income tax considerations.

Balance Sheet Analysis

Investment Securities

Total investment securities decreased \$9.5 million in 2010, from \$274.9 million in 2009 to \$265.4 million at December 31, 2010. The decrease resulted primarily from \$34.7 million in maturities and calls of securities within the portfolio in 2010, partially offset by \$26.1 million in purchased securities. Average duration of the portfolio was 3.17 years as of December 31, 2010 and the average taxable-equivalent yield was 3.54%. For the year ended December 31, 2009, average duration of the portfolio was 3.27 years and the average taxable-equivalent yield was 4.64%. Unrealized net gains before tax effect in the securities available-for-sale portfolio were \$6.3 million at December 31, 2010, compared to unrealized net gain before tax effect of \$5.9 million at December 31, 2009. These amounts result from interest rate fluctuations.

At December 31, 2010, approximately \$37.3 million, or 14.1%, of the securities available-for-sale portfolio represented mortgage-backed securities and CMOs. All of the mortgage-backed securities and CMOs are government

agency sponsored with the exception of three privately issued CMOs with a current market value of \$228,000. Risk due to changes in interest rates on mortgage-backed pools is monitored by monthly reviews of prepayment speeds, duration, and purchase yields as compared to current market yields on each security. CMOs totaled \$25.8 million and represented pools that each had a book value of less than 10% of shareholders' equity at December 31, 2010. An additional 44.6% of the available-for-sale portfolio consisted of short-term U.S. Government sponsored enterprises securities, while municipal securities represented 41.3%. A detailed credit analysis on each municipal offering is reviewed prior to purchase. In addition, we limit the amount of securities of any one municipality purchased and the amount purchased within specific geographic regions to reduce the risk of loss within the nontaxable municipal securities portfolio.

Table 4
Composition of Investment Securities
December 31
(in thousands)

	2010	2009	2008	2007	2006
Available-for-sale securities					
U. S. Treasuries	\$-	\$-	\$-	\$-	\$1,986
U. S. Government sponsored enterprises	117,698	102,523	39,747	45,229	51,280
Obligations of state and political subdivisions	108,852	117,301	118,613	100,966	95,676
GSE mortgage-backed securities	11,472	15,634	19,661	24,250	29,888
Collateralized mortgage obligations	25,787	36,278	47,829	10,797	854
Corporate securities	-	-	-	-	990
Financial institution equity security	-	72	94	210	-
Total available-for-sale securities	\$263,809	\$271,808	\$225,944	\$181,452	\$180,674
Held-to-maturity securities					
Obligations of state and political subdivisions	\$1,588	\$3,043	\$6,490	\$10,746	\$15,901
Total held-to-maturity securities	\$1,588	\$3,043	\$6,490	\$10,746	\$15,901
Total investment securities	\$265,397	\$274,851	\$232,434	\$192,198	\$196,575

Table 5
Investment Securities Portfolio
Maturities and Average Taxable-Equivalent Yields
For the Year Ended December 31, 2010
(dollars in thousands)

Securities	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Year		After 10 Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
Securities available-for-sale:									
U.S. Government sponsored enterprises	\$ 34,584	1.72 %	\$ 83,114	1.40 %	\$ -	-	\$ -	-	\$ 117,698
Obligations of state and political subdivisions ¹	6,365	3.63 %	49,156	4.91 %	43,742	5.52 %	9,589	5.87 %	108,852
GSE mortgage-backs and CMOs	12,849	3.81 %	24,289	5.10 %	121	3.01 %	-	-	37,259
Total fair value	\$ 53,798		\$ 156,559		\$ 43,863		\$ 9,589		\$ 263,809
Held-to-Maturity:									
	Within 1 Year		After 1 but		After 5 but		After 10 Years		Total
	Amount	Yield	Within 5 Years	Yield	Within 10 Year	Yield	Amount	Yield	

Obligations of state and political subdivisions	\$ 900	6.92 %	\$ 688	6.97 %	\$ -	-	\$ -	-	\$ 1,588
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1 Tax exempt yields are expressed on a fully taxable equivalent basis.

Loan Portfolio

The loan portfolio totaled \$580.8 million at December 31, 2010, down 0.7%, or \$4.2 million, from \$585.0 million at December 31, 2009. Although we experienced increased loan activity in the second and third quarters of 2010, commercial and consumer customers continued to pay down debt, which resulted in decreased loan volume year-over-year. The commercial portfolio, including financial and agricultural loans, decreased \$15.8 million in 2010. Included in the \$15.8 million was the payout of a \$3.9 million nonaccrual loan and \$5.0 million loan participation in the fourth quarter of 2010. The installment loan portfolio decreased \$14.8 million in 2010, primarily due to a \$13.4 million decrease in our indirect automobile financing portfolio. The decrease in indirect auto loans resulted from stricter underwriting standards combined with a decline in volume due to current economic conditions. Total real estate construction loans increased \$14.6 million and commercial real estate loans grew \$20.7 million. The majority of the loans added in these two portfolios during 2010 are secured by owner-occupied commercial properties. Additionally, the growth was diversified throughout our Louisiana and Texas markets. The commercial real estate loan growth consisted primarily of credits that have ten to fifteen year amortization terms with rates fixed primarily for three years, but up to five years. We believe the short-term structure of these real estate mortgage credits allows greater flexibility in controlling interest rate risk.

The loan portfolio at December 31, 2010 consisted of approximately 49% in fixed rate loans, with the majority maturing within five years. Approximately 51% of the portfolio earns a variable rate of interest, the greater majority of which adjusts to changes in the Prime rate and a smaller portion that adjusts on a scheduled repricing date. The mix of variable and fixed rate loans provides some protection from changes in market rates of interest. Additionally, over the past two years, we established rate floors, primarily for our commercial loans, that provided some protection to our net interest margin during a sustained low rate environment like we are currently facing.

Table 6
Composition of Loans
December 31
(in thousands)

	2010	2009	2008	2007	2006
Commercial, financial, and agricultural	\$ 177,598	\$ 193,350	\$ 208,473	\$ 192,681	\$ 153,680
Lease financing receivable	4,748	7,589	8,058	8,089	7,902
Real estate – commercial	208,764	188,045	167,242	148,465	129,396
Real estate – residential	72,460	77,130	67,346	67,840	63,187
Real estate – construction	54,164	39,544	65,327	65,448	64,126
Installment loans to individuals	62,272	77,069	87,743	85,931	77,475
Other	806	2,315	4,766	1,051	3,280
Total loans	\$ 580,812	\$ 585,042	\$ 608,955	\$ 569,505	\$ 499,046

NOTE: The December 31, 2007 loan composition reflects a reclassification in real estate – construction, real estate – mortgage, and commercial, financial, and agricultural loans.

Table 7
 Loan Maturities and Sensitivity to Interest Rates
 For the Year Ended December 31, 2010
 (in thousands)

	Fixed and Variable Rate Loans at Stated Maturities				Amounts Over One Year With		
	1 Year or Less	1 Year – 5 Years	Over 5 years	Total	Predetermined Rates	Floating Rates	Total
Commercial, financial, and agricultural	\$ 79,698	\$ 76,630	\$ 21,270	\$ 177,598	\$ 56,776	\$ 41,124	\$ 97,900
Lease financing receivables	287	4,392	69	4,748	4,461	-	4,461
Real estate – commercial	29,554	58,260	120,950	208,764	54,421	124,789	179,210
Real estate – residential	8,690	24,033	39,737	72,460	42,812	20,958	63,770
Real estate – construction	26,912	14,437	12,815	54,164	15,189	12,064	27,253
Installment loans to individuals	15,655	43,590	3,027	62,272	40,911	5,705	46,616
Other	672	134	-	806	134	-	134
Total	\$ 161,468	\$ 221,476	\$ 197,868	\$ 580,812	\$ 214,704	\$ 204,640	\$ 419,344

Asset Quality

Credit Risk Management

We manage credit risk by observing written, board approved policies that govern all underwriting activities. In 2010, we added a Chief Credit Officer (“CCO”) responsible for credit underwriting and loan operations for the Bank. The role of CCO includes on-going review and development of lending policies and practices, along with credit risk management procedures. The current risk management process 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 independent reviews performed by the loan review officer 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. We believe the conservative nature of our underwriting practices has resulted in strong credit quality in our loan portfolio. Completed loan applications, credit bureau reports, financial statements, and a committee approval process remain a part of credit decisions. Documentation of the loan decision process is required on each credit application, whether approved or denied, to insure thorough and consistent procedures. Additionally, we have historically recognized and disclosed significant problem loans quickly and taken prompt action to address material weaknesses in those credits.

Our loan review process also includes monitoring and reporting of loan concentrations whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At December 31, 2010, one industry segment concentration, the oil and gas industry, aggregate more than 10% of our loan portfolio. Our exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately \$97.6 million, or 16.8% of total loans. Additionally, we monitor our exposure to loans secured by commercial real estate. At December 31, 2010, loans secured by commercial real estate, including commercial construction and multifamily loans, totaled approximately \$256.8

million. Of the \$256.8 million, \$186.1 million represent commercial real estate loans, 70% of which are secured by owner-occupied commercial properties. Of the loans secured by commercial real estate, \$15.6 million or 6.1% were on nonaccrual status at December 31, 2010 and consisted primarily of four credits totaling \$13.7 million.

Nonperforming Assets

Table 8 contains information about nonperforming assets, including loans past due 90 days or greater (“90 days or >”) and still accruing.

Table 8
Asset Quality Information
December 31
(dollars in thousands)

	2010	2009	2008	2007	2006
Loans on nonaccrual	\$19,603	\$16,183	\$9,355	\$1,602	\$1,793
Loans past due 90 days or > and still accruing	66	378	1,005	980	98
Total nonperforming loans	19,669	16,561	10,360	2,582	1,891
Other real estate owned, net	1,206	792	329	143	368
Other assets repossessed	36	51	306	280	55
Total nonperforming assets	\$20,911	\$17,404	\$10,995	\$3,005	\$2,314
Troubled debt restructurings	\$653	\$-	\$-	\$-	\$-
Nonperforming loans to total loans	3.39	% 2.83	% 1.70	% 0.45	% 0.38
Nonperforming assets to total assets	2.09	% 1.79	% 1.17	% 0.35	% 0.29
Allowance as a percentage of nonperforming loans	45	% 48	% 73	% 217	% 263

Nonperforming assets, including loans past due, totaled \$20.9 million at December 31, 2010 and \$17.4 million at December 31, 2009. The \$3.5 million increase in nonperforming assets resulted primarily from a \$3.3 million commercial development loan in the Texas market added in the third quarter of 2010. As a result of information recently obtained regarding this \$3.3 million loan, we expect to charge-off the \$1.7 million of specific reserves allocated to the loan by the end of the first quarter of 2011 and begin the foreclosure process. We currently do not expect to record additional loan loss provisions related to this credit as a result of foreclosure based on a current appraisal of the collateral. The increase in nonperforming assets in 2009 and 2008 resulted primarily from two large credit relationships secured by commercial real estate in the Baton Rouge market. One credit relationship involves two loans that were placed on nonaccrual status in 2008 and totaled \$7.7 million at December 31, 2010. Of the \$7.7 million, one loan totaling \$6.1 million is secured by a condominium complex. Subsequent to year end 2010, information received on the \$6.1 million loan prompted us to charge-off \$800,000 in specific reserves allocated to the loan. We expect the property will be transferred to other real estate owned within the first or second quarter of 2011, which will require an updated valuation analysis and may result in additional loan loss provisions. In January 2011, the remaining \$1.6 million loan secured by commercial property was sold. The second commercial credit relationship was placed on nonaccrual status in 2009 and is a \$2.7 million national participation loan. Write-downs on the value of the underlying commercial property totaled \$1.2 million in 2010 and \$1.8 million in 2009. The loan will be a long term work-out based on actions taken by the lead bank.

Allowance coverage for nonperforming loans was 45% at December 31, 2010, compared to 48% at December 31, 2009. The allowance coverage for nonperforming loans ratio declined in 2010 despite an increase in the ALLL/total loans ratio from 1.37% at December 31, 2009 to 1.52% at December 31, 2010. The decreased coverage ratio for nonperforming loans resulted primarily from loans placed on nonaccrual status in 2010 that did not require specific

reserves due to sufficient underlying collateral values. Excluding the effect of the two large commercial credit relationships in the Baton Rouge market, and the commercial development loan in the Texas market, allowance coverage for nonaccrual loans was 103% at December 31, 2010 and 158% at December 31, 2009. Year-to-date net charge-offs were 0.72% of total loans as of December 31, 2010 compared to 0.86% as of December 31, 2009. The ALLL/total loans ratio was 1.52% at December 31, 2010 compared to 1.37% at December 31, 2009.

Consumer and commercial loans are placed on nonaccrual status when principal or interest is 90 days past due, or sooner if the full collectibility of principal or interest is doubtful, except if the underlying collateral fully supports

both the principal and accrued interest and the loan is in the process of collection. Our policy provides that retail (consumer) loans that become 120 days delinquent be routinely charged off. Loans classified for regulatory purposes but not included in Table 8 do not represent material amounts that we have serious doubts as to the ability of the borrower to comply with loan repayment terms. Further information regarding loan policy is provided in the notes to the consolidated financial statements.

Allowance for Loan Losses

Provisions totaling \$5.0 million, \$5.5 million, and \$4.6 million, for the years 2010, 2009, and 2008, respectively, were considered necessary to bring the allowance for loan losses to a level we believe sufficient to cover probable losses in the loan portfolio. Table 9 analyzes activity in the allowance for 2010, 2009, 2008, 2007, and 2006.

Table 9
Summary of Loan Loss Experience
(dollars in thousands)

	2010	2009	2008	2007	2006
Balance at beginning of year	\$7,995	\$7,586	\$5,612	\$4,977	\$4,355
Charge-offs:					
Commercial, financial, and agricultural	1,333	1,147	776	150	149
Lease financing receivables	1	26	-	1	-
Real estate – commercial	130	136	39	-	-
Real estate – residential	146	306	125	1	-
Real estate – construction	1,478	2,172	428	-	-
Installment loans to individuals	1,368	1,481	1,256	474	393
Other	-	-	-	-	-
Total charge-offs	4,456	5,268	2,624	626	542
Recoveries:					
Commercial, financial, and agricultural	50	56	35	18	85
Lease financing receivables	1	-	-	6	-
Real estate – commercial	1	-	-	-	63
Real estate – residential	60	2	-	6	-
Real estate – construction	1	1	-	-	-
Installment loans to individuals	141	168	155	55	162
Other	-	-	2	1	4
Total recoveries	254	227	192	86	314
Net charge-offs	4,202	5,041	2,432	540	228
Additions to allowance charged to operating expenses	5,020	5,450	4,555	1,175	850
Reclassification ¹	-	-	(149)	-	-
Balance at end of year	\$8,813	\$7,995	\$7,586	\$5,612	\$4,977
Net charge-offs to average loans	0.72	% 0.86	% 0.40	% 0.10	% 0.05
Year-end allowance to year-end loans	1.52	% 1.37	% 1.25	% 0.99	% 1.00

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

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Table 10
Allocation of Loan Loss by Category
(dollars in thousands)

	2010		2009		2008		2007		2006	
	Amount	% of loans to total	Amount	% of loans to total	Amount	% of loans to total	Amount	% of loans to total	Amount	% of loans to total
Commercial, financial, and real estate	\$1,664	31.0	\$2,053	33.0	\$1,586	35.0	\$2,111	34.0	\$1,543	31.0
Real estate - construction	2,963	9.0	2,247	7.0	2,911	11.0	659	11.0	647	13.0
Real estate -mortgages ¹	-	-	2,296	45.0	1,999	38.0	1,893	39.0	1,891	38.0
Real estate - commercial	2,565	36.0	-	-	-	-	-	-	-	-
Real estate - residential	862	12.0	-	-	-	-	-	-	-	-
Installment loans to individuals	730	11.0	1,378	14.0	1,058	15.0	805	15.0	796	16.0
Lease financing receivables	29	1.0	21	1.0	32	1.0	80	1.0	50	2.0
Other	-	-	-	-	-	-	64	-	50	-
	\$8,813	100.0	\$7,995	100.0	\$7,586	100.0	\$5,612	100.0	\$4,977	100.0

Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The allowance is comprised of specific reserves assigned to each impaired loan for which probable loss has been identified as well as general reserves to maintain the allowance at an acceptable level for other loans in the portfolio where historical loss experience is available that indicates certain probable losses may exist. 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 we determine 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. Additional information regarding the allowance for loan losses is included in the notes to the consolidated financial statements.

Funding Sources

Deposits

As of December 31, 2010, total deposits increased \$27.5 million, or 3.6%, to \$800.8 million following an increase of \$6.6 million in 2009 to \$773.3 million. Noninterest-bearing deposits increased \$24.3 million to \$199.5 million and represented 24.9% of total deposits at December 31, 2010, compared to 22.7% at December 31, 2009 and 26.1% at December 31, 2008. The increase in noninterest-bearing balances resulted primarily from new business checking accounts. Interest-bearing deposits in money market and savings accounts increased \$20.7 million, primarily in our Platinum consumer money market accounts, which earn competitive rates of interest within our markets. NOW

1 Portfolio segments have been revised for 2010 in accordance with Accounting Standards Update 2010-20, effective for periods ending on or after December 15, 2010.

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account deposits decreased \$2.1 million. Time deposits, which are comprised mostly of certificates of deposits (“CDs”), decreased \$15.4 million in 2010, as some customers placed maturing CDs in money market and savings accounts. Typically, CDs earn rates of interest higher than savings and money market products, but given the prevailing low interest rate environment, short-term rates offered on most CDs vary minimally from NOW checking, savings and money market rates. Customers with maturing CD’s in 2010 were offered lowered rates at renewal and generally shifted their deposits to other products.

Core deposits, defined as all deposits other than time deposits of \$100,000 or more, remained strong at 92.6% of total deposits in 2010 compared to 91.2% at year-end 2009, and 89.1% at year-end 2008. Strategically, to manage the net interest margin and core deposit balances, we typically offer low- to mid-market rates on CDs and have no brokered deposits. Additional information on deposits appears in the tables below and in the notes to the consolidated financial statements.

Table 11
Summary of Average Deposits
(in thousands)

	2010		2009		2008	
	Average Amount	Average Yield	Average Amount	Average Yield	Average Amount	Average Yield
Noninterest-bearing demand deposits	\$ 184,419	-	\$ 185,757	-	\$ 185,113	-
Interest-bearing deposits:						
Savings, NOW, and money market	466,844	0.76 %	439,655	1.05 %	453,531	1.75 %
Time deposits	122,324	1.56 %	141,159	2.46 %	146,272	4.07 %
Total	\$ 773,587	0.71 %	\$ 766,571	1.06 %	\$ 784,916	1.77 %

Table 12
Maturity Schedule Time Deposits of \$100,000 or More
(in thousands)

	2010	2009	2008
3 months or less	\$ 24,555	\$ 30,397	\$ 33,941
Over 3 months through 6 months	8,992	15,235	24,988
Over 6 months through 12 months	11,601	17,118	15,775
Over 12 months	13,975	5,343	7,818
Total	\$ 59,123	\$ 68,093	\$ 82,522

Borrowed Funds

As of December 31, 2010, we had securities sold under repurchase agreements totaling \$43.8 million and no federal funds purchased. At December 31, 2009, we had \$47.1 million in securities sold under repurchase agreements and \$1.7 million in federal funds purchased. Retail repurchase agreements, included in securities sold under agreements to repurchase, decreased \$3.3 million, from \$34.6 million at December 31, 2009 to \$31.3 million at December 31, 2010.

On September 20, 2004, we issued \$8,248,000 of unsecured junior subordinated debentures. The \$8.2 million in debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at December 31, 2010 was 2.80%. The debentures mature on September 20, 2034 and, under certain circumstances, are

subject to repayment on September 20, 2009 or thereafter.

On February 22, 2001, we issued \$7,217,000 of unsecured junior subordinated debentures. The \$7.2 million in debentures carry a fixed interest rate of 10.20% and mature on February 22, 2031 and, under certain circumstances, are subject to repayment on February 22, 2011 or thereafter. Our outstanding debentures currently qualify as Tier 1 capital and are presented in the Consolidated Balance Sheets as Junior subordinated debentures. Additional information regarding long-term debt is provided in the notes to the consolidated financial statements.

Regulations adopted as a result of the Dodd-Frank Act have resulted in changes to the regulatory capital treatment of

securities similar to our debentures. However, because of the issue date of our debentures and our asset size, we may continue to include the debentures in our Tier 1 capital.

In July of 2007, we entered into a \$12.5 million reverse repurchase agreement with Citigroup Markets, Inc. (“CGMI”). The reverse repurchase agreement provided low cost funding to meet liquidity demands. Under the terms of the agreement, interest is payable at a fixed rate of 4.57% for the remainder of the term. The repurchase date is scheduled for August 9, 2017; however, the agreement is subject to call by CGMI quarterly.

The ESOP note held by the Bank totaled \$104,000 at December 31, 2010. The ESOP obligation constitutes a reduction of shareholders' equity because the primary source of loan repayment is contributions by the Bank to the ESOP; however, the loan is not guaranteed by the Company. ESOP borrowings are eliminated from total loans and long-term debt as an intercompany balance in the December 31, 2010 and 2009 consolidated financial statements.

Capital

As described under “Supervision and Regulation,” we are required to maintain certain minimum capital levels for the Company and the Bank. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. At December 31, 2010, the Company and the Bank were in compliance with statutory minimum capital requirements. 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 capital to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of December 31, 2010, the Company's leverage ratio was 14.00% as compared to 13.95% at December 31, 2009. Tier 1 capital to risk weighted assets was 21.11% and 19.34% for 2010 and 2009, respectively. Total capital to risk weighted assets was 22.36% and 20.54%, respectively, for the same periods. For regulatory purposes, Tier 1 Capital includes \$15.0 million of the junior subordinated debentures issued by the Company. For financial reporting purposes, these funds are included as a liability under GAAP. The Bank's leverage ratio was 10.78% and 10.63% at December 31, 2010 and 2009, respectively. Our 2009 capital ratios were significantly impacted by our public stock offering completed in December 2009.

The FDIC Improvement Act of 1991 established a capital-based supervisory system for all insured depository institutions that imposes increasing restrictions on the institution as its capital deteriorates. The Bank was classified as “well capitalized” as of December 31, 2010. No significant restrictions are placed on the Bank as a result of this classification.

As discussed under the heading Balance Sheet Analysis - Securities, \$6.3 million in unrealized gains on securities available-for-sale, less a deferred tax liability of \$2.1 million, was recorded as an addition to shareholders' equity as of December 31, 2010. As of December 31, 2009, \$5.9 million in unrealized gains on securities available-for-sale, less a deferred tax liability of \$2.0 million, was recorded as an addition to shareholders' equity. While the net unrealized loss or gain on securities available-for-sale is required to be reported as a separate component of shareholders' equity, it does not affect operating results or regulatory capital ratios. The net unrealized gains and losses reported for December 31, 2010 and 2009, however, did affect the equity-to-assets ratio for financial reporting purposes. The ratio of equity-to-assets was 13.63% at December 31, 2010 and 13.30% at December 31, 2009.

Asset/Liability Management and Interest Rate Sensitivity

Interest rate sensitivity is the sensitivity of net interest income and economic value of equity to changes in market rates of interest. The primary objective of our asset and liability management process is to evaluate interest rate sensitivity inherent in our balance sheet components and establish guidelines to manage that risk within acceptable performance levels. Management and our Board of Directors are responsible for determining the appropriate level of acceptable risk based on our strategic focus, regulatory requirements for capital and liquidity, and the market

environment. Our Board of Directors established an Asset/Liability management committee (“ALCO”), comprised of certain executive and senior officers of the Bank, to measure and monitor interest rate risk within defined parameters. During 2010, ALCO utilized a qualified third party’s model of asset and liability management to measure interest rate risk using net interest income simulation and economic value of equity sensitivity analysis. The third party utilizes its own proprietary software to model our assets and liabilities. The model captures data from our internal operating systems, an external investment portfolio accounting system and additional information regarding rates and prepayment characteristics to construct an analysis that presents differences in repricing, cash flows and the maturity characteristics of earning assets and interest-bearing liabilities for selected time periods.

Table 13
Interest Rate Sensitivity and Gap Analysis Table
December 31, 2010
(in thousands at book value)

	0-3 MOS	4-12 MO	1-3 YRS	3-5 YRS	>5YRS	Noninterest-Bearing	Total
Assets							
Interest-bearing deposits and federal funds sold	\$ 71,149	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,149
Time deposits held in banks	-	5,164	-	-	-	-	5,164
Investments securities	14,843	64,206	113,912	32,934	39,502	-	265,397
Other investments	584	-	-	-	4,478	-	5,062
Loans	179,683	118,415	169,979	70,068	42,667	-	580,812
Other assets	-	-	-	-	-	83,568	83,568
Allowance for loan losses	-	-	-	-	-	(8,813)	(8,813)
Total assets	\$ 266,259	\$ 187,785	\$ 283,891	\$ 103,002	\$ 86,647	\$ 74,755	\$ 1,002,339
Liabilities and Shareholders' Equity							
Liabilities:							
NOW and savings	\$ -	\$ -	\$ -	\$ -	\$ 207,313	\$ -	\$ 207,313
Money market	276,289	-	-	-	-	-	276,289
Certificates of deposit	42,347	46,264	23,189	5,910	-	-	117,710
Non-interest bearing deposits	-	-	-	-	-	199,460	199,460
Other liabilities	39,574	-	-	-	19,717	5,623	64,914
Shareholders' equity	-	-	-	-	-	136,653	136,653
Total liabilities and shareholders' equity	\$ 358,210	\$ 46,264	\$ 23,189	\$ 5,910	\$ 227,030	\$ 341,736	\$ 1,002,339
Repricing/maturity gap							
Period	\$ (91,951)	\$ 141,521	\$ 260,702	\$ 97,092	\$ (140,383)	\$ (266,981)	
Cumulative	\$ (91,951)	\$ 49,570	\$ 310,272	\$ 407,364	\$ 266,981	\$ -	
Cumulative Gap/Total Assets	(9.17)%	4.95 %	30.95 %	40.64 %	26.64 %		

Net Interest Income at Risk in Year 1
Changes in Interest Rates

Estimated Increase
/Decrease
in NII at December 31,
2010

Up 300 basis points	1.55%
Up 200 basis points	0.06%
Down 100 basis points	0.36%

Gap analysis data at December 31, 2010 in Table 13 combined with additional assumptions including repricing rates and payment characteristics, were used to perform instantaneous parallel rate shift and ramped rate shift simulations. Instantaneous rate shifts are known as “rate shocks” because all rates are modeled to change instantaneously by the indicated shock amount. Ramped rate shifts model gradual shifts over a period of time and generally provide more realistic projections of changes in net interest income and market risk. Results of the simulations were compared to a base case scenario that provided projected net interest income over the next twelve months with no change in the balance sheet. The estimated percentage changes in projected net interest income due to changes in interest rates of –100, +200, and +300 basis points as determined through the simulations are included in Table 13. At December 31, 2010, simulation results indicated that our balance sheet is slightly asset sensitive in terms of interest rate sensitivity and were within policy guidelines. The results of the simulations are reviewed by ALCO and discussed quarterly at Funds Management committee meetings of our Board of Directors.

Although we revised our asset/liability and funds management policy in January 2011 to allow for the potential use of interest rate derivatives, we have neither entered into any interest rate swaps or off-balance sheet derivatives to modify interest sensitivity levels nor has the Board of Directors yet authorized management to do so.

Liquidity

Bank Liquidity

Liquidity is the availability of funds to meet maturing contractual obligations and to fund operations. The Bank’s primary liquidity needs involve its ability to accommodate customers’ demands for deposit withdrawals as well as customers’ requests for credit. Liquidity is deemed adequate when sufficient cash to meet these needs can be promptly raised at a reasonable cost to the Bank.

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. Our core deposits are our most stable and important source of funding. Cash deposits at other banks, federal funds sold, and principal payments received on loans and mortgage-backed securities provide additional primary sources of liquidity. Approximately \$75.4 million in projected cash flows from securities repayments during 2011 provides an additional source of liquidity.

The Bank also has significant borrowing capacity with the Federal Reserve Bank of Atlanta (“FRB”) and with the FHLB–Dallas. As of December 31, 2010, we had no borrowings with the FRB-Atlanta or the FHLB-Dallas. The Company has \$21.8 million in borrowing capacity at the FRB Discount Window and has the ability to post additional collateral of approximately \$114.8 million if necessary to meet liquidity needs. Additionally, \$15.9 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled \$206.8 million at December 31, 2010. Additional unsecured borrowing lines totaling \$38.5 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

Company Liquidity

On December 22, 2009, we closed an underwritten public offering of 2.7 million shares of our common stock at a price of \$12.75 per share. On January 7, 2010, the underwriters of the public offering exercised in full their overallotment option for 405,000 additional shares of our common stock. Net proceeds from the offering and the exercise of the overallotment option totaled \$37.2 million after deducting underwriting discounts and offering expenses. We used the net proceeds for general corporate purposes including supporting ongoing and anticipated growth, which may include potential acquisition opportunities.

On January 9, 2009, our participation in the CPP of the Treasury offered under the EESA added \$20.0 million in liquidity and capital. We distributed the majority of the proceeds to the Bank for the purpose of funding loans. Some of the proceeds were retained at the Company to meet the 5% dividend requirement on the Series A Preferred Stock issued to the Treasury under the CPP.

As part of the CPP Transaction, we issued the Treasury warrants to purchase 208,768 shares of our common stock at an exercise price of \$14.37 per share. However, as a result of the completion of our public offering in December 2009, the number of shares subject to the warrants held by the Treasury was reduced to 104,384 shares.

We are currently evaluating our options for repayment of the Series A Preferred Stock. In connection therewith, in March 2011 we applied for approximately \$32 million in funds under the SBLF authorized by Congress under the Small Business Jobs Act of 2010. If our application is approved to participate under the SBLF, we would issue

shares of a new series of preferred stock to the Treasury and use the net proceeds to repurchase our existing \$20.0 million in Series A Preferred Stock and expect to use any remaining proceeds to support our continued growth. The dividend rate on the shares of preferred stock issued in connection with the SBLF will be dependent on our volume of qualified small business loans. No assurances can be provided however that our application under the SBLF will be approved.

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividend payments on the Series A Preferred Stock, issued in the CPP transaction, and dividends on the common stock. We issued \$8,248,000 in unsecured junior subordinated debentures in September 2004 and \$7,217,000 in February 2001, the terms of which are described in the notes to the consolidated financial statements. Dividends from the Bank totaling \$1.8 million provided additional liquidity for the company in 2009. Although no dividends have been paid to the Company in 2010, as of January 1, 2011, the Bank had the ability to pay dividends to the Company of approximately \$13.0 million without prior approval from its primary regulator. At December 31, 2010, the parent company had approximately \$32.0 million cash available for general corporate purposes, including injecting capital into the Bank. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock, trust preferred and other securities to provide funds as needed for operations and future growth of the Company.

Dividends

The primary source of cash dividends on the Company's common stock is dividends from the Bank. The Bank has the ability to declare dividends to the Company of up to \$13.0 million as of December 31, 2010 without prior approval of primary regulators. However, the Bank's ability to pay dividends would be prohibited if the result would cause the Bank's regulatory capital to fall below minimum requirements.

Cash dividends totaling \$2.7 million and \$1.8 million were declared to common shareholders during 2010 and 2009, respectively. Pursuant to the terms of the agreements between us and the Treasury governing the CPP Transaction, we may not pay cash dividends on our common stock in excess of \$0.28 per share per year. A special dividend of \$0.04 per share was paid in addition to the regular \$0.07 per share dividend for the fourth quarter of 2008 to shareholders of record on December 14, 2008.

Off Balance Sheet Arrangements and Other Contractual Obligations

In the normal course of business we use various financial instruments with off-balance sheet risk to meet the financing needs of customers and to reduce exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. We did not have an average balance in any category of short-term borrowings detailed below in 2010, 2009, or 2008 that exceeded 30% of our stockholders' equity for such year. Additional information regarding contractual obligations appears in the notes to the consolidated financial statements. The following table presents significant contractual obligations as of December 31, 2010.

Table 14
Contractual Obligations
(in thousands)

	Total	Payment due by period			
		1 year or less	> 1-3 years	> 3-5 years	More than 5 years
Time deposits	\$117,710	\$88,631	\$23,189	\$5,887	\$3

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Federal funds purchased	-	-	-	-	-
Long-term debt obligations	15,465	-	-	-	15,465
Retail Repurchase Agreements	31,326	31,326	-	-	-
Reverse Repurchase Agreements	12,500	-	-	-	12,500
Operating lease obligations	15,449	1,565	2,707	2,619	8,558
Total	\$192,450	\$121,522	\$25,896	\$8,506	\$36,526

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Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto, presented herein, have been prepared in accordance with GAAP, 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 and due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all of our assets and liabilities are financial. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. For additional information, see “Funding Sources – Interest Rate Sensitivity.”

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

Information regarding market risk appears under the heading Interest Rate Sensitivity under Item 7 – Management’s Discussion and Analysis of Financial Position and Results of Operations included in this filing.

Item 8 – Financial Statements and Supplementary Data

Consolidated Balance Sheets

December 31, 2010 and 2009

(dollars in thousands, except share data)

	2010	2009
Assets		
Cash and due from banks, including required reserves of \$3,487 and \$3,435, respectively	\$20,758	\$22,842
Interest-bearing deposits in banks	69,452	509
Federal funds sold	1,697	-
Time deposits held in banks	5,164	26,122
Securities available-for-sale, at fair value (cost of \$257,472 at December 31, 2010 and \$265,892 at December 31, 2009)	263,809	271,808
Securities held-to-maturity (estimated fair value of \$1,608 at December 31, 2010 and \$3,121 at December 31, 2009)	1,588	3,043
Other investments	5,062	4,902
Loans	580,812	585,042
Allowance for loan losses	(8,813)	(7,995)
Loans, net	571,999	577,047
Bank premises and equipment, net	36,592	38,737
Accrued interest receivable	4,628	4,808
Goodwill and intangibles	9,386	9,483
Cash surrender value of life insurance	4,698	4,540
Other assets	7,506	8,301
Total assets	\$1,002,339	\$972,142
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$199,460	\$175,173
Interest-bearing	601,312	598,112
Total deposits	800,772	773,285
Borrowings	43,826	48,759
Accrued interest payable	616	765
Junior subordinated debentures	15,465	15,465
Other liabilities	5,007	4,591
Total liabilities	865,686	842,865
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized, 20,000 shares issued and outstanding at December 31, 2010 and at December 31, 2009	19,408	19,211
Common stock, \$0.10 par value; 30,000,000 shares authorized, 9,880,743 and 9,488,933 issued and 9,730,266 and 9,318,268 outstanding at December 31, 2010 and December 31, 2009, respectively	988	949
Additional paid-in capital	89,893	85,263
Unearned ESOP shares	(104)	(217)
Accumulated other comprehensive income	4,182	3,904

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Treasury stock- 150,477 shares at December 31, 2010 and 170,665 shares at December 31, 2009, at cost	(3,286)	(3,544)
Retained earnings	25,572	23,711
Total shareholders' equity	136,653	129,277
Total liabilities and shareholders' equity	\$ 1,002,339	\$ 972,142

See notes to consolidated financial statements.

Consolidated Statements of Earnings
December 31, 2010, 2009 and 2008
(in thousands, except per share data)

	Twelve Months Ended December 31,		
	2010	2009	2008
Interest income:			
Loans, including fees	\$40,029	\$41,342	\$45,532
Investment securities:			
Taxable	3,699	3,905	4,380
Nontaxable	3,967	4,353	4,308
Other interest income	429	441	1,252
Total interest income	48,124	50,041	55,472
Interest expense:			
Deposits	5,468	8,103	13,910
Borrowings	953	1,098	956
Junior subordinated debentures	974	1,019	1,219
Total interest expense	7,395	10,220	16,085
Net interest income	40,729	39,821	39,387
Provision for loan losses	5,020	5,450	4,555
Net interest income after provision for loan losses	35,709	34,371	34,832
Noninterest income:			
Service charges on deposit accounts	9,673	10,389	10,265
ATM and debit card income	3,360	3,066	2,739
Other charges and fees	1,824	1,591	2,124
Total noninterest income	14,857	15,046	15,128
Noninterest expenses:			
Salaries and employee benefits	20,352	21,743	20,951
Occupancy expense	8,727	9,288	8,687
ATM and debit card expense	1,465	1,230	1,351
Other	13,274	12,432	12,985
Total noninterest expense	43,818	44,693	43,974
Earnings before income taxes	6,748	4,724	5,986
Income tax expense	968	125	449
Net earnings	\$5,780	\$4,599	\$5,537
Dividends on preferred stock	1,198	1,175	-
Net earnings available to common shareholders	\$4,582	\$3,424	\$5,537
Earnings per common share:			
Basic	\$0.47	\$0.51	\$0.84
Diluted	\$0.47	\$0.51	\$0.83

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

December 31, 2010, 2009 and 2008

(in thousands)

	2010	2009	2008
Net earnings	\$5,780	\$4,599	\$5,537
Other comprehensive income, net of tax:			
Unrealized gains on securities available-for-sale:			
Unrealized holding gains arising during the year net of income tax expense of \$143, \$1,076, and \$456 respectively	280	2,090	884
Reclassification adjustment for gain on liquidation of equity security included in securities available-for-sale, net of income tax expense of \$1, for the year ended December 31, 2010 and for impairment loss, net of income tax benefit of \$61, for the year ended December 31, 2009	(2)	117	-
Total other comprehensive income	278	2,207	884
Total comprehensive income	\$6,058	\$6,806	\$6,421

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

December 31, 2010, 2009 and 2008

(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Accumulated Other Comprehensive			Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount	ESOP Surplus	(Loss) Obligation	Income			
Balance December 31, 2007	-	\$-	6,722,993	\$672	\$51,327	\$(133)	\$813	\$(3,040)	\$18,830	\$68,469
Cumulative effect adjustment for the adoption of EITF 06-4	-	-	-	-	-	-	-	-	(115)	(115)
Dividends on common stock - \$0.32 per share	-	-	-	-	-	-	-	-	(2,119)	(2,119)
Exercise of stock options	-	-	65,892	7	469	-	-	-	-	476
Tax benefit resulting from exercise of stock options	-	-	-	-	204	-	-	-	-	204
Purchase of treasury stock, 23,837 shares	-	-	-	-	-	-	-	(504)	-	(504)
Net earnings	-	-	-	-	-	-	-	-	5,537	5,537
ESOP compensation expense	-	-	-	-	28	115	-	-	-	143
Stock option expense	-	-	-	-	69	-	-	-	-	69
Change in accumulated other comprehensive income	-	-	-	-	-	-	884	-	-	884
Balance December 31, 2008	-	-	6,788,885	679	52,097	(18)	1,697	(3,544)	22,133	73,044
Net earnings	-	-	-	-	-	-	-	-	4,599	4,599
Issuance of common stock, net of offering expenses	-	-	2,700,000	270	32,178	-	-	-	-	32,448
	20,000	19,014	-	-	940	-	-	-	-	19,954

Issuance of series A cumulative preferred stock and common stock warrants, net of costs of issuance											
Dividends on preferred stock and accretion of common stock warrants	-	197	-	-	-	-	-	-	(1,175)	(978))
Dividends on common stock - \$0.28 per share	-	-	-	-	-	-	-	-	(1,846)	(1,846))
Exercise of stock options	-	-	48	-	-	-	-	-	-	-)
Tax benefit resulting from exercise of stock options, net adjustment	-	-	-	-	(3))	-	-	-	(3))
ESOP compensation expense	-	-	-	-	31	(199)	-	-	-	(168))
Stock option expense	-	-	-	-	20	-	-	-	-	20)
Change in accumulated other comprehensive income	-	-	-	-	-	-	2,207	-	-	2,207)
Balance December 31, 2009	20,000	19,211	9,488,933	949	85,263	(217)	3,904	(3,544)	23,711	129,277)
Net earnings	-	-	-	-	-	-	-	-	5,780	5,780)
Issuance of common and treasury stock due to overallotment, net of discount and offering expenses	-	-	384,811	38	4,472	-	-	258	-	4,768)
Dividends on preferred stock and accretion of common stock warrants	-	197	-	-	-	-	-	-	(1,198)	(1,001))
	-	-	-	-	-	-	-	-	(2,721)	(2,721))

Dividends on
common stock -
\$0.28 per share

Exercise of stock options	-	-	6,999	1	50	-	-	-	-	51
ESOP compensation expense	-	-	-	-	58	113	-	-	-	171
Stock compensation expense	-	-	-	-	50	-	-	-	-	50
Change in accumulated other comprehensive income	-	-	-	-	-	-	278	-	-	278
Balance December 31, 2010	20,000	\$19,408	9,880,743	\$988	\$89,893	\$(104)	\$4,182	\$(3,286)	\$25,572	\$136,653

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
December 31, 2010, 2009, and 2008
(in thousands)

	2010	2009	2008
Cash flows from operating activities:			
Net earnings	\$ 5,780	\$ 4,599	\$ 5,537
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	3,398	3,708	3,381
Provision for loan losses	5,020	5,450	4,555
Deferred income taxes	(1,033)	(541)	30
Amortization of premiums on securities, net	1,226	970	380
Net loss on sale of other real estate owned	150	55	-
Loss on sale of equipment	132	18	188
Stock compensation expense	50	20	69
(Gain)loss on liquidation and/or impairment of equity security in securities available-for-sale	(3)	178	-
Change in accrued interest receivable	180	548	393
Change in accrued interest payable	(149)	(462)	(87)
Change in other assets and liabilities, net	2,512	(3,280)	(1,442)
Net cash provided by operating activities	17,263	11,263	13,004
Cash flows from investing activities:			
Net change in interest-earning time deposits	20,958	(17,099)	(9,023)
Proceeds from liquidation of equity security included in securities available-for-sale	75	-	-
Proceeds from maturities and calls of investment securities available-for-sale	33,242	77,703	52,593
Proceeds from maturities of investment securities held-to-maturity	1,455	3,453	4,269
Purchases of investment securities available-for-sale	(26,107)	(121,369)	(96,134)
Proceeds from redemption of other investments	-	600	1,468
Purchases of other investments	(173)	(1,201)	(1,762)
Net change in loans	(1,080)	17,603	(42,430)
Purchases of premises and equipment	(1,291)	(1,770)	(4,777)
Proceeds from sale of premises and equipment	3	9	12
Proceeds from sales of other real estate owned	796	477	282
Purchase of other real estate owned	(450)	-	-
Net cash used in investing activities	27,428	(41,594)	(95,502)
Cash flows from financing activities:			
Change in deposits	27,487	6,581	33,187
Change in repurchase agreements	(3,233)	22,083	