MIDSOUTH BANCORP INC
Form 10-K
March 17, 2008

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, 2007
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, LA 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	American Stock Exchange, Inc.

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 _X_

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 _X_

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers 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 __X__

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer ___ Accelerated filer _X__ Non-accelerated filer __ Small reporting company __

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $89,084,578. As of February 29, 2008, there were 6,603,844 outstanding shares of MidSouth Bancorp, Inc. common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Company's Proxy Statement for its 2008 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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Part I

Item 1 - Business

The Company
MidSouth Bancorp, Inc. (the “Company”) is a Louisiana corporation registered as a bank holding company under the Bank Holding Company Act of 1956. Its operations are conducted primarily through two wholly owned bank subsidiaries (the “Banks”), MidSouth Bank, N.A. (“MidSouth LA”), chartered in February 1985, and MidSouth Bank-Texas, N.A. (“MidSouth TX”), acquired in October 2004. The Company plans to combine the two banks late in the first quarter of 2008.

The Banks
MidSouth LA is a national banking association domiciled in Lafayette, Louisiana. MidSouth TX is domiciled in Beaumont, Texas and converted to a national charter in September 2007. The Banks provide a broad range of commercial and retail community banking services primarily to professional, commercial, and industrial customers in their market areas. These services include, but are not limited to, interest bearing and non-interest bearing checking accounts, investment accounts, cash management services, electronic banking services, credit cards, and secured and unsecured loan products. The Banks are U.S. government depositories and are members of the Pulse network, which provides its customers with automatic teller machine services through the Pulse and Cirrus networks. Membership in the Community Cash Network provides the customers of MidSouth LA and MidSouth TX with access to all ATMs operated by the Banks with no surcharge. The MidSouth Franchise operates locations throughout south Louisiana and southeast Texas described below under Item 2 - Properties.

Employees
As of December 31, 2007, the Banks employed approximately 410 full-time equivalent employees. The Company has no employees who are not also employees of the Banks. Through the Banks, employees receive employee benefits, which include an employee stock ownership plan, a 401(K) plan, and life, health and disability insurance plans. The Company’s 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 relationships of the Banks with their employees to be excellent.

Competition
The Banks face strong competition in their market areas from both traditional and non-traditional 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. Several of the financial services competitors in the Company’s market areas are substantially larger and have far greater resources, but the Company has effectively competed by building long-term customer relationships and customer loyalty through a continued focus on quality customer service enhanced by current technology and effective delivery systems.

Other factors, including economic, legislative, and technological changes, also impact the Company’s competitive environment. The Company’s management continually evaluates competitive challenges in the financial services industry and develops appropriate responses consistent with its overall market strategy.

The Company opened four new branches and three replacement branches in 2007, continuing its primary focus of growing in existing markets with new branches. In 2008, the Company plans to continue its expansion into southeastern Louisiana as well as solidifying and expanding its banking presence and commercial lending base throughout Houston and southeast Texas. The Company is continually receptive to new growth opportunities in both our existing markets and locations that are in accordance with our long-term strategic goal of building shareholder wealth.

Supervision and Regulation

Participants in the financial services industry are subject to varying degrees of regulation and government supervision. The following contains important aspects of the supervision and regulation of banks and bank holding companies. The current system of laws and regulations can change over time and it cannot be predicted whether these changes will be favorable or unfavorable to the Company or the Banks.

Bank Holding Companies

General

As a bank holding company, the Company is subject to the Bank Holding Company Act of 1956 (the "Act") and to supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Act requires the Company to file periodic reports with the Federal Reserve Board and subjects the Company to regulation and examination by the Federal Reserve Board. The Act also requires the Company to obtain the prior approval of the Federal Reserve Board for acquisitions of substantially all of the assets of any bank or bank holding company or more than 5% of the voting shares of any bank or bank holding company. The Act prohibits the Company from engaging in any business other than banking or bank-related activities specifically allowed by the Federal Reserve Board, including modifications to the Act brought about by the enactment of the Gramm-Leach-Bliley Act ("GLB") of 1999.

Gramm-Leach-Bliley Act

This financial services reform legislation (1) permits commercial banks to affiliate with investment banks, (2) permits companies that own commercial banks to engage in any type of financial activity, and (3) allows subsidiaries of banks to engage in a broad range of financial activities beyond those permitted for banks themselves. As a result, banks, securities firms, and insurance companies are able to combine much more readily.

Under provisions of GLB, two types of regulated entities are authorized to engage in a broad range of financial activities much more extensive than those of standard holding companies. A "financial holding company" can engage in all authorized activities and is simply a bank holding company whose depository institutions are well-capitalized, well-managed, and has a Community Reinvestment Act ("CRA") rating of "satisfactory" or better. The Company is not registered as a financial holding company. A "financial subsidiary" is a direct subsidiary of a bank that satisfies the same conditions as a "financial holding company" plus several more. The "financial subsidiary" can engage in most of the authorized activities, which are defined as securities, insurance, merchant banking/equity investment, "financial in nature," and "complementary" activities.

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

Support of Subsidiary Banks by Holding Companies

Under current Federal Reserve Board policy, the Company is expected to act as a source of financial strength for the Banks and to commit resources to support the Banks in circumstances where it might not do so absent such policy. In addition, any loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank at a certain level would be assumed by the bankruptcy trustee and entitled to priority of payment.

Limitations on Acquisitions of Bank Holding Companies

As a general proposition, other companies seeking to acquire control of a bank holding company, such as the Company, would require the approval of the Federal Reserve Board under the Act. In addition, individuals or groups of individuals seeking to acquire control of a bank holding company would need to file a prior notice with the Federal Reserve Board (which the Federal Reserve Board may disapprove under certain circumstances) under the Change in Bank Control Act. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control may exist under the Act or the Change in Bank Control Act if the individual or company acquires 10% or more of any class of voting securities of the bank holding company.

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Sarbanes-Oxley Act of 2002

Signed into law on July 30, 2002, the Sarbanes-Oxley Act of 2002 (“SOX”) addresses many aspects of corporate governance and financial accounting and disclosure. Primarily, it provides a framework for the oversight of public company auditing and for insuring the independence of auditors and audit committees. Under SOX, audit committees are responsible for the appointment, compensation, and oversight of the work of external and internal auditors. SOX also provides for enhanced and accelerated financial disclosures, establishes certification requirements for a company’s chief executive and chief financial officers and imposes new restrictions on and accelerated reporting of certain insider trading activities. Significant penalties for fraud and other violations are included in SOX.

Under Section 404 of SOX, the Company is required to include in its annual report a statement of management’s responsibility to establish and maintain adequate internal control over financial reporting and management’s conclusion on the effectiveness of internal controls at year-end. Additionally, independent auditors are required to attest to and report on management’s evaluation of internal controls over financial reporting.

Anti-Money Laundering

Financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls; a designated compliance officer; an ongoing employee training program; and testing of the program by an independent audit function. The Company and the Banks are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and “knowing your customer” in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and recent laws provide the law enforcement authorities with increased access to financial information maintained by banks. Anti-money laundering regulations have been substantially strengthened as a result of the USA PATRIOT Act, enacted in 2001. Bank regulators routinely examine institutions for compliance with these obligations and are required to consider compliance in connection with the regulatory review of applications. The regulatory authorities have been active in imposing “cease and desist” orders and money penalty sanctions against institutions found in violation of these obligations.

Capital Adequacy Requirements

The Federal Reserve Board and the Office of the Comptroller of Currency require that the Company and the Banks meet certain minimum ratios of capital to assets in order to conduct their activities. Two measures of regulatory capital are used in calculating these ratios: Tier 1 Capital and Total Capital. Tier 1 Capital generally includes common equity, retained earnings and a limited amount of qualifying preferred stock, reduced by goodwill and specific intangible assets, such as core deposit intangibles, and certain other assets. Total Capital generally consists of Tier 1 Capital plus the allowance for loan losses, preferred stock that did not qualify as Tier 1 Capital, particular types of subordinated debt, and a limited amount of other items.

The Tier 1 Capital ratio and the Total Capital ratio are calculated against an asset total weighted for risk. Certain assets, such as cash and U. S. Treasury securities, have a zero risk weighting. Others, such as commercial and consumer loans, often have a 100% risk weighting. Assets also include amounts that represent the potential funding of off-balance sheet obligations such as loan commitments and letters of credit. These potential assets are assigned to risk categories in the same manner as funded assets. The total assets in each category are multiplied by the appropriate risk weighting to determine risk-adjusted assets for the capital calculations.

The leverage ratio also provides a measure of the adequacy of Tier 1 Capital, but assets are not risk-weighted for this calculation. Assets deducted from regulatory capital, such as goodwill and other intangible assets, are excluded from the asset base used to calculate capital ratios. The minimum capital ratios for both the Company and the Banks are generally 8% for Total Capital, 4% for Tier 1 Capital and 4% for leverage.

At December 31, 2007, the Company's ratios of Tier 1 and total capital to risk-weighted assets were 11.21% and 12.08%, respectively. The Company's leverage ratio (Tier 1 capital to total average adjusted assets) was 8.67% at December 31, 2007. All three regulatory capital ratios for the Company and the Banks exceeded regulatory minimums at December 31, 2007.

To be eligible to be classified as “well-capitalized,” the Banks must generally maintain a Total Capital ratio of 10% or greater, a Tier 1 Capital ratio of 6% or greater, and a leverage ratio of 6% or more. If an institution fails to remain well-capitalized, it will be subject to a series of restrictions that increase as the capital condition worsens. For instance, federal law generally prohibits a depository institution from making any capital distributions, including the payment of a dividend, or paying any management fee to its holding company, if the depository institution would be undercapitalized as a result. Undercapitalized depository institutions may not accept brokered deposits absent a waiver from the Federal Deposit Insurance Corporation (FDIC), and are subject to growth limitations, and must submit a capital restoration plan that is guaranteed by the institution's parent holding company. Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

As of December 31, 2007, the most recent notification from the FDIC placed MidSouth LA and MidSouth TX in the “well capitalized” category under the regulatory framework for prompt corrective action. All three regulatory capital ratios for the Banks exceeded these minimums at December 31, 2007.

National Banks

General

As national banking associations, MidSouth LA and MidSouth TX are supervised and regulated by the Office of the Comptroller of the Currency (“OCC”) (its primary regulatory authority), the Federal Reserve Board, and the FDIC. Under Section 23A of the Federal Reserve Act, the Banks are restricted in their ability to extend credit to or make investments in the Company and other affiliates as that term is defined in that act. National banks are required by the National Bank Act to adhere to branch banking laws applicable to state banks in the states in which they are located and are limited as to powers, locations and other matters of applicable federal law.

Restrictions on loans to directors, executive officers, principal shareholders, and their related interests (collectively referred to herein as “insiders”) are contained in the Federal Reserve Act and Regulation O and apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution’s unimpaired capital and surplus, and the OCC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Deposit Insurance

The Banks’ deposits are insured by the FDIC up to the amount permitted by law. The Banks are thus subject to FDIC deposit insurance premium assessments. The FDIC uses a risk-based assessment system that assigns insured depository institutions to different premium categories based primarily on each institution's capital position and its overall risk rating as determined by its primary regulator. For several years, as a well-capitalized financial institution, the Company has not been required to pay FDIC insurance premiums, but has been required to pay FICO (the Financing Corporation) assessments that currently total approximately $21,000 a quarter, or $84,000 annually. FICO has assessment authority to collect funds from FDIC-insured institutions sufficient to pay interest on non-callable thrift bonds issued between 1987 and 1989, which expire with the bonds in 2019. In 2007, the FDIC resumed deposit insurance assessments and also issued one-time credits against the assessments to qualifying institutions. The Company qualified for a one-time credit totaling approximately $240,000, which offset the new FDIC assessment through the third quarter of 2007. In the fourth quarter of 2007, the Company recorded approximately $74,000 in FDIC assessments, in addition to the $21,000 in FICO assessments.

Annual premium rates on deposit insurance ranges from five to seven basis points per $100 of assessable deposits for institutions that are judged to pose the least risk to the insurance fund and up to 43 basis points per $100 of assessable deposits for the most risky institutions. Based on current deposit growth projections, FDIC and FICO assessments for 2008 will average approximately $127,000 per quarter, or $508,000 for the year.

Financial Institutions Reform, Recovery and Enforcement Act

The Banks are held liable by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") for any losses incurred by, or reasonably expected to be incurred by, the FDIC in connection with (1) the default of a commonly controlled FDIC-insured financial institution or (2) any assistance provided by the FDIC to a commonly controlled financial institution in danger of default.

Community Reinvestment Act

The Banks are subject to the provisions of the Community Reinvestment Act of 1977, as amended ("CRA"), and the related regulations issued by federal banking agencies. The CRA states that all banks have a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs for their entire communities, including low- and moderate-income neighborhoods. The CRA also charges a bank's primary federal regulator, in connection with the examination of the institution or the evaluation of certain regulatory applications filed by the institution, with the responsibility to assess the institution's record in fulfilling its obligations under the CRA. The regulatory agency's assessment of the institution's record is made available to the public. The Banks received a satisfactory rating following their most recent CRA examination.

Consumer Regulation

Activities of the Banks are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include provisions that:

- govern the Banks' disclosures of credit terms to consumer borrowers;
- limit the interest and other charges collected or contracted for by the Banks;
- require the Banks to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the community it serves;
- prohibit the Banks from discriminating on the basis of race, creed, or other prohibited factors when it makes decisions to extend credit;
- require that the Banks safeguard the personal nonpublic information of its customers, provide annual notices to consumers regarding the usage and sharing of such information, and limit disclosure of such information to third parties except under specific circumstances; and
- govern the manner in which the Banks may collect consumer debts.

The deposit operations of the Banks are also subject to laws and regulations that:

- require the Banks to adequately disclose the interest rates and other terms of consumer deposit accounts;
- impose a duty on the Banks to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records; and
- govern automatic deposits to and withdrawals from deposit accounts with the Banks and the rights and liabilities of customers who use automated teller machines and other electronic banking services.

Governmental Policies

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

Available Information

The Company files annual, quarterly, and current reports with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's website is www.sec.gov. The Company maintains a corporate website at www.midsouthbank.com. It provides public access free of charge to its annual reports on Form 10-K for the last five years, and its most recent quarterly report on Form 10-Q under the Corporate Relations section of the corporate website.

Item 1A – Risk Factors

An investment in the Company's stock involves a number of risks. Investors should carefully consider the following risks as well as the other information in this Annual Report on Form 10-K 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 its common stock.

Risks Relating to the Company's Business

Decisions regarding credit risk involve a high degree of judgment. If the allowance for loan losses is not sufficient to cover actual losses, then earnings would decrease.

The loan and investment portfolio subjects the Company to credit risk. In-depth analysis is performed to maintain an appropriate allowance for loan losses inherent in the loan portfolio. During 2007, recorded provisions for loan losses totaled $1.2 million based on an overall evaluation of this risk. As of December 31, 2007, the allowance was $5.6 million, which is about 0.99% of total loans.

There is no precise method of predicting loan losses; therefore, the Company faces the risk that additional increases in the allowance for loan losses will be required. Additions to the allowance will result in a decrease in net earnings and capital and could hinder the Company's ability to grow.

The Company has 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 the Company.

The Company has a concentration of exposure to a number of individual borrowers. The largest exposure to one borrowing relationship as of December 31, 2007, was approximately $11.0 million, which is 21.1% of combined capital and surplus. In addition, as of December 31, 2007, the aggregate exposure to the 10 largest borrowing relationships was approximately $83.0 million, which was 161.5% of capital and surplus.

The Company has a high concentration of loans secured by real estate, and a downturn in the real estate market could materially and adversely affect earnings.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2007, approximately 50% of the Company's 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 the Company's primary markets could significantly impair the value of collateral and the ability to sell the collateral upon foreclosure. Furthermore, it is likely that the Company would be required to increase the provision for loan losses. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase the allowance for loan losses, the Company’s profitability and financial condition could be adversely impacted.

The Company may face risks with respect to future expansion and acquisition.

The Company has expanded its business in part through acquisitions and cannot assure the continuance of this trend or the profitability of future acquisitions. The Company’s ability to implement its strategy for continued growth depends on the ability to continue to identify and integrate profitable acquisition targets, to attract and retain customers in a highly competitive market, the growth of those customers' businesses, and the ability to increase the deposit base. Many of these growth prerequisites may be affected by circumstances that are beyond the control of the Company’s management and could have a material adverse effect on the size and quality of the Company’s assets.

An economic downturn or a natural disaster, especially one affecting the Company's market areas, could adversely affect the Company.

Since most of the Company's business is conducted in Louisiana and Texas, most of the credit exposure is in those states; thus, the Company is at risk from adverse economic or business developments, including a downturn in real estate values and agricultural activities, and natural hazards such as hurricanes, floods, and tornadoes that affect Louisiana and Texas. If the economies of Louisiana or Texas experience an overall decline as a result of these adverse developments or natural hazards, the rates of delinquencies, foreclosures, bankruptcies, and losses on loan portfolios would probably increase substantially and the value of real estate or other collateral could be adversely affected.

Competition from other financial intermediaries may adversely affect the Company's profitability.

The Company faces substantial competition in originating loans and in attracting deposits. The competition in originating loans comes principally from other U.S. banks, mortgage banking companies, consumer finance companies, credit unions, insurance companies, and other institutional lenders and purchasers of loans. Many of the Company's competitors are institutions that have significantly greater assets, capital, and other resources. Increased competition could require the Company to increase the rates paid on deposits or lower the rates offered on loans, which could adversely affect and also limit future growth and earnings prospects.

The Company's profitability is vulnerable to interest rate fluctuations.

The Company's 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.

In periods of increasing interest rates, loan originations may decline, depending on the performance of the overall economy, which may adversely affect income from these 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.

The Company relies heavily on its management team and the unexpected loss of key officers may adversely affect operations.

The Company's 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 the business. The loss of services of Mr. Cloutier or any other executives could have an adverse effect on the Company. While the Company has employment agreements with Mr. Cloutier and other executive officers, a formal management succession plan has been established. Accordingly, should the Company lose any member of senior management, there can be no assurance that the Company will be able to locate and hire a qualified replacement on a timely basis.

A favorable assessment of the effectiveness of the Company's internal controls over financial reporting and the independent auditors' unqualified attestation report on that assessment are critical to the value of the Company's common stock.

The Company's management is required to report on, and the independent auditors to attest to, the effectiveness of internal controls over financial reporting as of December 31, 2007. The rules governing the standards that must be met for management to assess internal controls are complex, and require significant documentation, testing, and possible remediation. In connection with this effort, the Company has incurred increased expenses and diversion of management's time and other internal resources. In connection with the attestation process by the Company's independent auditors, management may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation. If the Company cannot make the required report, or if the Company's external auditors are unable to provide an unqualified attestation, investor confidence and the Company's common stock price could be adversely affected.

Monetary policy and other economic factors could affect profitability adversely.

Many factors affect the demand for loans and the ability to attract deposits, including:

- changes in governmental economic and monetary policies;
- modifications to tax, banking, and credit laws and regulations;
- national, state, and local economic growth rates;
- employment rates; and
- population trends.

The Company's success will depend in significant part upon the ability to maintain a sufficient interest margin between the rates of interest received on loans and other investments and the rates paid out on deposits and other liabilities. The monetary and economic factors listed above, and the need to pay rates sufficient to attract deposits, may adversely affect the Company's ability to maintain an interest margin sufficient to result in operating profits.

The Company operates within a highly regulated industry and its business and results are significantly affected by the regulations to which it is subject.

The Company operates within a highly regulated environment. The regulations to which the Company is subject will continue to have a significant impact on its operations and the degree to which it can grow and be profitable. Certain regulators, to which the Company is subject, have significant power in reviewing the Company's operations and approving its business practices. In recent years the Company's banks, as well as other financial institutions, have 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 the Company. There is no assurance that any change to the regulatory requirements to which the Company is subject, or the way in which such regulatory requirements are interpreted or enforced, will not have a negative effect on the Company's ability to conduct its business and its results of operations.

The Company relies 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 significantly affect the Company's operations.

The Company's ability to compete depends on the ability to continue to adapt and deliver technology on a timely and cost-effective basis to meet customers' demands for financial services.

Risks Relating to an Investment in the Company's Common Stock

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

The Company's stock incentive plan provides for the granting of stock incentives to directors, officers, and employees. As of December 31, 2007, there were 150,433 shares issued under options granted under that plan. Likewise, a number of shares equal to 8% of outstanding shares, including existing shares issuable under current options, are reserved for future issuance to directors, officers, and employees.

It is probable that options will be exercised during their respective terms if the stock price exceeds the exercise price of the particular option. 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, the Company's articles of incorporation authorize the issuance of up to 10,000,000 shares of common stock and 5,000,000 shares of preferred stock, but do not provide for preemptive rights to the stockholders. Authorized but unissued shares are available for issuance by the Company's Board. Shareholders will not automatically have the right to subscribe for additional shares. As a result, if the Company issues additional shares to raise capital or for other corporate purposes, shareholders may be unable to maintain a pro rata ownership in the Company.

The holders of the Company's trust preferred securities have rights that are senior to those of shareholders.

At December 31, 2007, the Company had outstanding $15.5 million of trust preferred securities. Payment of these securities is senior to shares of common stock. As a result, the Company must make payments on the trust preferred before any dividends can be paid on common stock; moreover, in the event of bankruptcy, dissolution, or liquidation, the holders of the trust preferred securities must be satisfied before any distributions can be made to shareholders. The Company has the right to defer distributions on the trust preferred for up to five years, and if such an election is made, no dividends may be paid to stockholders during that time.

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

The Company's directors and executive officers beneficially own approximately 2,647,600 shares, or 40.3%, of outstanding common stock. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on the Company's business as shareholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval.

Provisions of the Company's articles of incorporation and bylaws, Louisiana law, and state and federal banking regulations, could delay or prevent a takeover by a third party.

The Company's articles of incorporation and bylaws could delay, defer, or prevent a third party takeover, despite possible benefit to the shareholders, or otherwise adversely affect the price of the common stock. The Company's governing documents:

- require Board action to be taken by a majority of the entire Board rather than a majority of a quorum;
- permit shareholders to fill vacant Board seats only if the Board has not filled the vacancy within 90 days;
- permit directors to be removed by shareholders only for cause and only upon an 80% vote;
- require an 80% shareholder vote to amend the Bylaws (85% in the case of certain provisions), a 75% vote to approve amendments to the Articles (85% in the case of certain provisions) and a 66-2/3% vote for any other proposal, in each case if the proposed action was not approved by two-thirds of the entire Board;

- require 80% of the voting power for shareholders to call a special meeting;
- 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 10 million shares of common 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 supermajority shareholder voting to approve business combinations not approved by the Board.

These provisions would 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 stockholder 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, the Company is subject to the provisions of the Louisiana Business Corporation Law ("LBCL"), which provides that the Company 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 resolution approved by the Company's 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.

The Company's future ability to pay dividends is subject to restrictions.

Since the Company is a holding company with no significant assets other than the Banks, the Company has no material source of income other than dividends received from these Banks. Therefore, the ability to pay dividends to the shareholders will depend on the Banks' ability to pay dividends to the Company. Moreover, banks and bank holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. The Company is also restricted from paying dividends if it has deferred payments of the interest on, or an event of default has occurred with respect to, its trust preferred securities.

A shareholder's investment is not an insured deposit.

An investment in the Company's common stock is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. A shareholder's investment will be subject to investment risk and the shareholder must be capable of affording the loss of the entire investment.

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

The Company leases its principal executive and administrative offices and principal MidSouth LA facility in Lafayette, Louisiana under a lease expiring March 31, 2017. The Company is granted two 5-year renewal options thereafter. MidSouth LA has eight other branches in Lafayette, Louisiana, three in New Iberia, Louisiana, two in Baton Rouge, Louisiana, two in Lake Charles Louisiana, and one banking office in each of the following Louisiana cities: Breaux Bridge, Cecilia, Cut Off, Jeanerette, Opelousas, Morgan City, Jennings, Sulphur, Thibodaux, and

Houma. Seventeen of these offices are owned and six are leased. MidSouth TX operates three full service branches in Beaumont, Texas, including its headquarters located at 555 N. Dowlen Road in Beaumont, two of which are owned and one leased. Additional full service branches are located in Vidor, College Station, and Conroe.

Item 3 - Legal Proceedings

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

Item 4 - Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's security holders in the fourth quarter of 2007.

Item 4A - Executive Officers of the Registrant

C. R. Cloutier, 60 – President, Chief Executive Officer and Director of the Company and MidSouth LA since 1984.

Karen L. Hail, 54 – Senior Executive Vice President and Chief Operations Officer of MidSouth LA since 2002, and Secretary and Treasurer of the Company since 1984.

Donald R. Landry, 51 – Senior Vice President and Senior Loan Officer of MidSouth LA since 1995 and Executive Vice President since 2002.

Dwight Utz, 54 - Senior Vice President of Retail Banking since 2001.

Teri S. Stelly, 48 - Senior Vice President and Controller of the Company since 1998.

Christopher J. Levanti, 41 – Joined MidSouth LA as Senior Vice President of Credit Administration in 2002.

J. Eustis Corrigan, Jr., 43 – Joined the Company in 2006 as Executive Vice President and Chief Financial Officer for the Company and the Banks; prior to his employment with the Company, Mr. Corrigan was a partner at KPMG, LLP from 1998 to 2006. Mr. Corrigan began his employment with KPMG in 1991.

Alexander Calicchia, 44 – Joined the Company in 2007 as Senior Vice President and Chief Marketing Officer for the Company and the Banks after 23 years in advertising and marketing, primarily within the banking field. Prior to employment with the Company, Mr. Calicchia served as Vice President, Brand and Product Manager for Capital One Financial Corporation.

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

PART II

Item 5 - Market for Registrant's Common Stock, Related Stockholder Matters, and Issuer Purchases of Equity Securities

As of February 29, 2008, there were 838 common shareholders of record. The Company's common stock trades on the American Stock Exchange 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 $1,920,161 were declared to common stockholders during 2007. The regular quarterly dividend of $0.06 per share was paid for the first two quarters of 2007. On July 18, 2007, the Company declared a 5% stock dividend and increased the quarterly dividend from $0.06 to $0.07 effective for the third and fourth quarters of 2007. A special dividend of $0.04 per share was declared in addition to the $0.07 per share for the fourth quarter of 2007. As adjusted for a 5% stock dividend in 2007, cash dividends paid in 2007 totaled $0.29 per share. It is the intention of the Board of Directors of the Company to continue paying quarterly dividends on the common stock at a rate of $0.07 per share. Cash dividends totaling $1,463,373 were declared to common stockholders during 2006. A quarterly dividend of $0.06 per share was paid for the first, second, and third quarters of 2006. As adjusted for a 25% stock dividend paid on October 23, 2006, cash dividends for the first three quarters of 2006 totaled $0.13 per share. A special dividend of $0.03 per share was declared in addition to the $0.06 per share for the fourth quarter of 2006, bringing the total cash dividends declared in 2006 to $0.22 per share Restrictions on the Company's ability to pay dividends are described in Item 7 below under the heading "Liquidity - Dividends" and in Note 12 to the Company's consolidated financial statements.

The following table provides information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser," as defined in Securities Exchange Act Rule 10b-8(a)(3), of equity securities during the fourth quarter ended December 31, 2007. In addition to the repurchases detailed below, a total of 6,667 shares were added to Treasury Stock through a 5% stock dividend paid on October 23, 2007.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan1	Maximum Number of Shares That May Yet be Purchased Under the Plan1
October 2007	88	$ 25.65	88	187,819
November 2007	5,787	$ 23.74	5,787	182,032
December 2007	52	$ 23.20	52	181,980

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2007, the Company had outstanding stock options granted under the 2007 Omnibus Incentive Compensation Plan, which was 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, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under

	warrants, and rights (a)		(b)	equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	150,433	$	11.57	375,660
Equity compensation plans not approved by security holders	-		-	-
Total	150,433	$	11.57	375,660

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

Item 6 – Five Year Summary of Selected Consolidated Financial Data

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Interest income	$ 57,139,108	$ 50,235,104	$ 38,555,576	$ 27,745,570	$ 24,230,450
Interest expense	(20,533,885)	(17,692,273)	(10,823,660)	(5,718,271)	(4,701,819)
Net interest income	36,605,223	32,542,831	27,731,916	22,027,299	19,528,631
Provision for loan losses	(1,175,000)	(850,000)	(979,737)	(991,480)	(550,000)
Non-interest income	14,259,407	12,378,881	12,286,126	9,245,802	7,619,914
Non-interest expenses	(38,635,238)	(33,124,139)	(29,326,273)	(20,859,859)	(17,970,856)
Earnings before income taxes	11,054,392	10,947,573	9,712,032	9,421,762	8,627,689
Income tax expense	(2,278,751)	(2,727,523)	(2,438,165)	(2,442,331)	(2,294,376)
Net income	$ 8,775,641	$ 8,220,050	$ 7,273,867	$ 6,979,431	$ 6,333,313
Basic earnings per share1	$ 1.34	$ 1.26	$ 1.13	$ 1.18	$ 1.10
Diluted earnings per share1	$ 1.32	$ 1.24	$ 1.10	$ 1.12	$ 1.06
Dividends per share1	$ 0.29	$ 0.22	$ 0.22	$ 0.18	$ 0.18
Total loans	$ 569,505,238	$ 499,045,702	$ 442,793,749	$ 386,471,421	$ 261,872,776
Total assets	854,056,054	805,021,686	698,814,421	610,087,872	432,914,305
Total deposits	733,516,997	716,179,541	624,938,100	530,382,792	374,388,482
Cash dividends on common stock	1,920,161	1,463,373	1,425,326	1,112,360	992,648
Long-term obligations2	15,465,000	15,465,000	15,465,000	15,465,000	