

**BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**

Washington, D.C. 20551

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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

For the Transition Period from _____ to _____

FDIC Certificate No. 57659

MIDSOUTH BANK

(Exact name of registrant as specified in its charter)

Tennessee

(State or Other Jurisdiction of
Incorporation or Organization)

75-3143086

(IRS Employer Identification Number)

One East College Street, Murfreesboro, TN 37133-7100

(Address of principal executive offices)

(615) 278-7100

(Registrant's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common stock, \$1.00 par value, outstanding: 3,742,317 shares at May 12, 2008.

MIDSOUTH BANK

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements of the Registrant, MidSouth Bank (the "Bank"), which are included in this Report are as follows:

Consolidated Balance Sheets - March 31, 2008 and December 31, 2007.

Consolidated Statements of Operations - For the three months ended March 31, 2008 and 2007.

Consolidated Statements of Comprehensive Earnings - For the three months ended March 31, 2008 and 2007.

Consolidated Statements of Cash Flows - For the three months ended March 31, 2008 and 2007.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4T. Controls and Procedures

Certain information for this part of the Report is incorporated by reference to Item 2 of Part I of this Report, entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 1A. Risk Factors

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

Item 3. Defaults Upon Senior Securities

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MIDSOUTH BANK

Consolidated Balance Sheets

March 31, 2008 and December 31, 2007

(Unaudited)

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	<i>(In Thousands, except share amounts)</i>	
<u>Assets</u>		
Loans, less allowance for loan losses of \$2,243,000 and \$2,032,000, respectively	\$ 197,652	191,074
Securities available-for-sale, at market (amortized cost of \$32,828,000 and \$30,848,000, respectively)	33,769	31,248
Loans held for sale	588	987
Federal funds sold	1,412	-
Restricted equity securities	1,479	1,439
Interest-bearing accounts at other financial institutions	<u>10</u>	<u>20</u>
Total earning assets	<u>234,910</u>	<u>224,768</u>
Cash and due from banks	4,061	8,838
Bank premises and equipment, net	10,584	10,752
Accrued interest receivable	957	1,054
Foreclosed assets	637	1,309
Other assets	<u>311</u>	<u>261</u>
Total assets	<u>\$ 251,460</u>	<u>246,982</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits	\$ 213,678	207,448
Advances from Federal Home Loan Bank	5,230	7,346
Federal funds purchased and securities sold under agreement to repurchase	314	226
Accrued interest payable	639	631
Accounts payable and other liabilities	<u>297</u>	<u>353</u>
Total liabilities	<u>220,158</u>	<u>216,004</u>
Stockholders' equity:		
Preferred stock, no par, authorized 20,000,000 shares, no shares issued	-	-
Common stock, par value \$1 per share, authorized 20,000,000 shares, 3,742,122 and 3,741,629 shares issued and outstanding, respectively	3,742	3,742
Additional paid-in capital	33,785	33,774
Deficit	(7,166)	(6,938)
Net unrealized gains on available-for-sale securities	<u>941</u>	<u>400</u>
Total stockholders' equity	<u>31,302</u>	<u>30,978</u>
COMMITMENTS AND CONTINGENCIES		
Total liabilities and stockholders' equity	<u>\$ 251,460</u>	<u>246,982</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Operations

Three Months Ended March 31, 2008 and 2007

(Unaudited)

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands</i>	
	<i>Except Per Share Amounts)</i>	
Interest income:		
Interest and fees on loans	\$ 3,236	2,929
Interest and dividends on taxable securities	419	446
Interest on Federal funds sold	6	137
Interest and dividends on restricted equity securities	<u>21</u>	<u>12</u>
Total interest income	<u>3,682</u>	<u>3,524</u>
Interest expense:		
Interest on negotiable order of withdrawal accounts	50	93
Interest on money market and other savings accounts	245	228
Interest on certificates of deposit	1,372	1,450
Interest on advance from Federal Home Loan Bank	38	-
Interest on Federal funds purchased and securities sold under agreement to repurchase	<u>4</u>	<u>-</u>
Total interest expense	<u>1,709</u>	<u>1,771</u>
Net interest income before provision for loan losses	1,973	1,753
Provision for loan losses	<u>249</u>	<u>57</u>
Net interest income after provision for loan losses	<u>1,724</u>	<u>1,696</u>
Non-interest income:		
Service charges on deposits	95	57
Other fees and commissions	89	70
Fees on mortgage originations	92	103
Fees from brokerage operations	142	99
Gains on sales of foreclosed assets, net	<u>39</u>	<u>-</u>
Total non-interest income	<u>457</u>	<u>329</u>
Non-interest expense:		
Employee salaries and benefits	1,252	1,057
Occupancy expenses, net	219	183
Furniture and equipment expense	120	112
FDIC insurance	42	5
Advertising expense	99	86
Other operating expenses	369	322
Professional fees	115	60
Data processing expense	164	144
Directors fees	<u>29</u>	<u>30</u>
Total non-interest expense	<u>2,409</u>	<u>1,999</u>
Earnings (loss) before income taxes	(228)	26
Income taxes	<u>-</u>	<u>-</u>
Earnings (loss)	<u>\$ (228)</u>	<u>\$ 26</u>
Basic earnings (loss) per common share	<u>\$ (0.06)</u>	<u>0.01</u>
Diluted earnings (loss) per common share	<u>\$ (0.06)</u>	<u>0.01</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Comprehensive Earnings

Three Months Ended March 31, 2008 and 2007

(Unaudited)

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Net earnings (loss)	\$ (228)	26
Other comprehensive earnings:		
Unrealized gains on available-for-sale securities arising during period	<u>541</u>	<u>156</u>
Comprehensive earnings	<u>\$ 313</u>	<u>182</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2008 and 2007

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Cash flows from operating activities:		
Interest received	\$ 3,772	3,416
Fees received	276	331
Proceeds from sale of loans	8,545	7,697
Origination of loans held for sale	(8,054)	(6,858)
Interest paid	(1,701)	(1,752)
Cash paid to suppliers and employees	(2,250)	(1,897)
Net cash provided by operating activities	588	937
Cash flows from investing activities:		
Purchase of available-for-sale securities	(7,490)	(5,997)
Repayments of mortgage-backed securities	1,143	786
Purchase of restricted equity securities	(40)	(26)
Maturities of available-for-sale securities	4,374	1,500
Loans made to customers, net of repayments	(6,827)	(11,225)
Capitalized cost of foreclosed assets	(49)	-
Proceeds from sale of foreclosed assets	760	-
Purchase of premises and equipment	(40)	(121)
Net cash used in investing activities	(8,169)	(15,083)
Cash flows from financing activities:		
Net increase (decrease) in non-interest bearing, savings and NOW deposit accounts	1,302	(2,449)
Net increase in time deposits	4,912	7,364
Net increase in mortgage escrow deposits	16	15
Increase in securities sold under agreements to repurchase	314	-
Proceeds from advances from the FHLB	27,845	-
Repayments of advances from the FHLB	(29,961)	-
Repayments of Federal funds purchased	(226)	-
Proceeds from sale of common stock	4	4,107
Net cash provided by financing activities	4,206	9,037
Net decrease in cash and cash equivalents	(3,375)	(5,109)
Cash and cash equivalents at beginning of period	8,858	19,599
Cash and cash equivalents at end of period	\$ 5,483	14,490

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Cash Flows, Continued

Three Months Ended March 31, 2008 and 2007

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Reconciliation of earnings (loss) to net cash provided by operating activities:		
Earnings (loss)	\$ (228)	26
Adjustments to reconcile earnings (loss) to net cash provided by operating activities:		
Depreciation	188	134
Provision for loan losses	249	57
Stock option compensation expense	7	10
Amortization and accretion, net	(7)	(3)
Increase in loans held for sale	399	839
(Increase) decrease in accrued interest receivable	97	(99)
Increase in interest payable	8	19
(Increase) decrease in other assets	(30)	2
Gain of sale of foreclosed assets	(39)	-
Decrease in other liabilities	<u>(56)</u>	<u>(48)</u>
Total adjustments	<u>816</u>	<u>911</u>
Net cash provided by operating activities	<u>\$ 588</u>	<u>937</u>
 Supplemental Schedule of Non-Cash Activities:		
Unrealized gain in value of securities available-for-sale	<u>\$ 541</u>	<u>156</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Notes to Consolidated Financial Statements

(Unaudited)

Basis of Presentation

The accompanying consolidated financial statements have been prepared, without audit, pursuant to the rules and regulations of the Board of Governors of the Federal Reserve System. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The consolidated financial statements include the financial results of MidSouth Bank and its wholly-owned subsidiary, MSB Services, Inc. (collectively “the Bank”). All intercompany accounts have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) and disclosures necessary to summarize fairly the financial position of the Bank as of March 31, 2008 and December 31, 2007 and the results of operations for the three months ended March 31, 2008 and 2007, comprehensive earnings for the three months ended March 31, 2008 and 2007 and changes in cash flows for the three months ended March 31, 2008 and 2007. The interim consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements presented in the Bank’s Annual Report on Form 10-KSB as filed with the Board of Governors of the Federal Reserve System. The results for interim periods are not necessarily indicative of results to be expected for the complete fiscal year.

Certain reclassifications have been made to 2007 financial information to conform to the 2008 presentation.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with accounting principles generally accepted in the United States of America as defined by the Public Company Accounting Oversight Board and conform to general practices accepted within the banking industry. Our most significant accounting policies are presented in the Bank’s December 31, 2007 Form 10-KSB and the notes to the audited consolidated financial statements contained therein. Certain accounting policies require management to make significant estimates and assumptions that have a material effect on the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

MIDSOUTH BANK

Notes to Consolidated Financial Statements, Continued

(Unaudited)

Allowance for Loan Losses

Transactions in the allowance for loan losses were as follows:

	Three Months Ended March 31,	
	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
Balance, January 1, 2008 and 2007, respectively	\$ 2,032	1,922
Add (deduct):		
Losses charged to allowance	(41)	(105)
Recoveries credited to allowance	3	-
Provision for loan losses	<u>249</u>	<u>57</u>
Balance, March 31, 2008 and 2007, respectively	<u>\$ 2,243</u>	<u>1,874</u>

The provision for loan losses was \$249,000 and \$57,000 for the first three months of 2008 and 2007, respectively. The increase in the provision from 2007 to 2008 is due to growth in the loan portfolio over the last year and to reserve for certain potential losses in the Bank's loan portfolio in the areas of real estate, construction and commercial lending. This is discussed in more detail under "Results of Operations." The provision for loan losses represents a charge to earnings necessary, after loan charge-offs and recoveries, to maintain the allowance for loan losses at an appropriate level which is adequate to absorb estimated losses inherent in the loan portfolio. Such estimated losses arise primarily from the loan portfolio but may also result from other sources, including commitments to extend credit and letters of credit. The level of the allowance is determined on a monthly basis using procedures which include: (1) categorizing commercial and commercial real estate loans into risk categories to estimate loss probabilities based primarily on the historical loss experience of those risk categories and current economic conditions; (2) analyzing significant commercial and commercial real estate credits and calculating specific reserves as necessary; (3) assessing various homogeneous consumer loan categories to estimate loss probabilities based primarily on historical loss experience; and (4) considering various other factors, such as changes in credit concentrations, loan mix, and economic conditions which may not be specifically quantified in the loan analysis process.

The allowance for loan losses consists of an allocated portion and an unallocated or general portion. The allocated portion is maintained to cover estimated losses applicable to specific segments of the loan portfolio. The unallocated portion is maintained to absorb losses which probably exist as of the evaluation date but are not identified by the more objective processes used for the allocated portion of the allowance due to risk of errors or imprecision. While the total allowance consists of an allocated portion and an unallocated portion, these terms are primarily used to describe a process. Both portions of the allowance are available to provide for inherent loss in the entire portfolio.

The allowance for loan losses is increased by provisions for loan losses charged to expense and is reduced by loans charged off net of recoveries on loans previously charged off. The provision is based on management's determination of the amount of the allowance necessary to provide for estimated loan losses based on its evaluation of the loan portfolio. Determining the appropriate level of the allowance and the amount of the provision involves uncertainties and matters of judgment and therefore cannot be determined with precision.

MIDSOUTH BANK

Notes to Consolidated Financial Statements, Continued

(Unaudited)

Stock Option Arrangement

In October, 2004, the Shareholders of the Bank approved the MidSouth Bank's 2004 Stock Option Arrangement (the "Arrangement"). The Arrangement provides for the granting of stock options, and authorizes the issuance of common stock upon the exercise of such options, for up to 380,000 shares of common stock to employees and organizers of the Bank and up to 143,080 shares of common stock for future use as decided by the Directors of the Bank. As of March 31, 2008, 465,000 options had been granted of which 38,000 have been exercised and 6,500 have been forfeited. Options that are forfeited revert to the Arrangement and can be granted again in the future. As of March 31, 2008, 337,078 options were exercisable. The weighted average exercise price of outstanding and exercisable stock options for the three months ended March 31, 2008 was \$10.00 per share. The weighted average remaining contractual term of outstanding and exercisable stock options for the three months ended March 31, 2008 was 6.5 years and 6.4 years, respectively. The aggregate intrinsic value of outstanding and exercisable stock options for the three months ended March 31, 2008 was \$1,240,000 and \$994,000, respectively. As of March 31, 2008, there were \$50,000 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Arrangement. Those costs are expected to be recognized over a remaining weighted average period of 2.1 years. Compensation expense related to stock options totaled \$7,000 and \$10,000 for the three months ended March 31, 2008 and 2007, respectively.

Under the Stock Option Arrangement, stock option awards may be granted in the form of incentive stock options or non-statutory stock options, with a ten-year option to purchase. Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date and otherwise in compliance with the requirements of the Internal Revenue Code applicable to incentive stock options and the terms of the Plan.

Stock Warrants

As part of the original offering, any shares purchased received non-detachable warrants which provide the stockholder the ability to purchase one additional whole share of common stock for every two shares of common stock purchased. The purchase price for the additional shares is equal to the greater of \$10 or 110% of the book value of the stock at the date of exercise. For each recipient, one half of the warrants received were required to be exercised within three years from January 20, 2004 (the date of issuance) and the other half within five years of the date of issuance. If unexercised, any remaining "three year" warrants have expired. All remaining "five year" warrants that are not exercised by January 20, 2009 will be forfeited. As of March 31, 2008, 603,826 of these warrants have been exercised, 128,690 have been forfeited or cancelled and 526,470 are exercisable.

Fair Value

During the first quarter of 2008, the Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 157, which establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

MIDSOUTH BANK

Notes to Consolidated Financial Statements, Continued

(Unaudited)

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in market that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Carrying Value at March 31, 2008	Fair Value Measurements at March 31, 2008 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(in 000's)</i>				
<u>Assets:</u>				
Available-for-sale securities	\$ 33,769	-	33,769	-
Impaired loans	4,630	-	4,630	-

Available-for-sale securities are measured on a recurring basis and are obtained from an independent pricing service. The fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables and pricing matrices.

Impaired loan balances in the table above represent those collateral-dependent loans where management has estimated the credit loss by comparing the loans' carrying values against the expected realized fair values of the collateral securing those loans. As of March 31, 2008, impaired loans had a carrying amount of \$5,280,000, with a valuation allowance of \$650,000.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

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

General

MidSouth Bank is a state chartered bank which began operations on January 20, 2004. The reader should keep in mind that many of the items discussed in this Report are affected by the fact that the Bank is a relatively new financial institution with limited operating history and results. Such things as "percentage increases" or "percentage decreases" can be deceptively large based on the fact that the Bank is growing rapidly and has been conducting banking operations for a relatively short period of time.

MidSouth Bank operates as a full-service community bank chartered under the laws of the State of Tennessee with deposits insured through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (FDIC). It is a member of the Federal Reserve System and its primary federal regulator is the Board of Governors of the Federal Reserve System (Federal Reserve). The Bank offers a wide range of banking services including checking, savings, money market accounts, certificates of deposits and loans for consumers and businesses. The Bank has trust powers and has an active trust department that provides both trust services and (as agent) alternative investment products for its customers. The Bank is subject to regulation, supervision, and examination by the Tennessee Department of Financial Institutions and the Federal Reserve. However, such regulation, supervision and examination are for the protection of consumers, the deposit insurance fund administered by the FDIC, and the banking system and not for the protection of investors or other stakeholders. The area served by MidSouth Bank is Rutherford County in Tennessee, and adjacent geographic areas in Middle Tennessee. Services are provided at the main office, three full-service banking offices in Murfreesboro, Tennessee and two full-service banking offices located in Smyrna, Tennessee.

The Bank has targeted commercial business lending, commercial residential real estate lending and consumer lending as potential growth areas in its highly competitive markets. The Bank seeks to build a loan portfolio which is capable of adjusting to swings in the interest rate market, and it is the Bank's policy to maintain a diverse loan portfolio not dependent on any particular market or industrial segment.

The purpose of this discussion is to provide insight into the financial condition and results of operations of the Bank. This discussion should be read in conjunction with the annual consolidated financial statements filed in conjunction with the Bank's Annual Report on Form 10-KSB for the year ended December 31, 2007 as filed with the Federal Reserve in March of 2008. The Annual Report on Form 10-KSB also contains important information concerning the Bank, its operations, applicable laws and regulations, and other matters.

As noted above, percentage increases in the financial statements of relatively new banks, like MidSouth Bank, can be misleading. They tend to be larger and more volatile than would be the case for most banks that have been established for extended periods of time.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Forward-Looking Statements

Management's discussion of the Bank and management's analysis of the Bank's operations and prospects, and other matters, may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other provisions of federal and state securities laws. Although the Bank believes that the assumptions underlying such forward-looking statements contained in this Report are reasonable, any of the assumptions could be inaccurate and, accordingly, there can be no assurance that the forward-looking statements included herein will prove to be accurate. The use of such words as expect, anticipate, forecast, project and comparable terms should be understood by the reader to indicate that the statement is "forward-looking" and thus subject to change in a manner that can be unpredictable. Factors that could cause actual results to differ from the results anticipated, but not guaranteed, in this Report, include (without limitation) economic and social conditions, relative declines in residential real estate construction in the United States, issues related to "subprime" mortgages, competition for loans, mortgages, and other financial services and products, changes in interest rates, unforeseen changes in liquidity, results of operations, and financial conditions affecting the Bank's customers, as well as other risks that cannot be accurately quantified or completely identified. Many factors affecting the Bank's financial condition and profitability, including changes in economic conditions, the volatility of interest rates, political events and competition from other providers of financial services simply cannot be predicted. Because these factors are unpredictable and beyond the Bank's control, earnings may fluctuate from period to period. The purpose of this type of information is to provide readers with information relevant to understanding and assessing the financial condition and results of operations of the Bank, and not to predict the future or to guarantee results. The Bank is unable to predict the types of circumstances, conditions, and factors that can cause anticipated results to change. The Bank undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of changes or unanticipated events, circumstances, or results.

Results of Operations

The Bank had a loss of \$228,000 for the first three months of 2008, compared to earnings of \$26,000 for the first three months of 2007. On a per share basis, the net loss was \$(0.06) per common share of stock for the first three months of 2008 compared to earnings of \$0.01 per common share of stock for the first three months of 2007.

These figures include provision for loan losses of \$249,000 and \$57,000 for the first three months of 2008 and 2007, respectively. The increase in the provision for loan losses, combined with an increase in salaries and employee benefits, were the primary factors in the decrease in the earnings from March 31, 2007 to March 31, 2008.

The provision for loan losses increased due to increased loan volumes in comparison with the previous year, coupled with recent economic trends affecting the construction lending and commercial lending segments of the loan portfolio. As 2008 began, the economy, according to a number of experts, was either entering, or had already entered, a recession. Also, the Bank had already foreclosed on several properties that were collateral for construction loans, and there were other loans in the portfolio that Bank management felt were potential problem loans. As a result, management has taken an even more critical approach in analyzing its loan portfolio, and therefore, more provisions for loan losses were taken during the first quarter of 2008.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

The increase in salaries and employee benefits is attributable to several factors, such as hiring several individuals to appropriately fill key positions, including the addition of a full-time chief financial officer during the fourth quarter of 2007. Also, salaries and employee benefits were affected by incentive plans that are driven by volume and fee factors in areas like mortgage loans and brokerage services. As the Bank benefits from the income generated by these areas, incentive payments increase for the individuals helping to generate the related income.

Net Interest Income

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Bank's earnings. Total interest income for the three months ended March 31, 2008 was \$3,682,000 and total interest expense was \$1,709,000. Net interest income for the first three months of 2008 totaled \$1,973,000. For the same period in 2007 total interest income was \$3,524,000 and total interest expense was \$1,771,000. This represents a 4.5% increase in total interest income and a 3.5% decrease in interest expense from 2007 to 2008. Net interest income for the first three months of 2007 was \$1,753,000. This represents an increase of 12.5% in net interest income from 2007 to 2008. Interest rates are expected to decrease slightly during 2008, and then perhaps level off after June of this year. Management has seen a steady decrease in the Bank's net interest margin as the Federal Reserve has lowered interest rates over the past six months. This is due to approximately 46% of the Bank's loan portfolio's being tied to a variable prime rate, thus repricing downward much more quickly than our deposits possibly could. To offset that impact, management has sought opportunities to lock in interest spreads on larger transactions by match funding loans to lock in interest spreads and has maintained shorter maturities on time deposits to allow for the expected rate decreases. Management believes that the Bank's net interest margin should remain stable or increase once interest rates stabilize over the next few months.

Provision for Loan Losses

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for estimated losses on outstanding loans and to provide for uncertainties in the economy. The provision for loan losses and the amount added to the allowance for loan losses was \$249,000 for the first three months of 2008 and \$57,000 for the same period in 2007. The level of the allowance and the amount of the provision involve evaluation of uncertainties and matters of judgment. Management believes the allowance for loan losses at March 31, 2008 and December 31, 2007 to be adequate. The total allowance for loan losses was \$2,243,000, or 1.12% of loans, at March 31, 2008 and \$2,032,000, or 1.05% of loans, at December 31, 2007.

As noted under "Results of Operations," the provision for loan losses increased during the first quarter of 2008 due to increased loan volumes in comparison with the previous year, coupled with some perceived declines in the quality of some loans in the Bank's portfolio in the construction lending and commercial lending segments of the loan portfolio.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Non-Interest Income

The Bank's non-interest income primarily consists of service charges on deposits, fees on mortgage originations and other fees and commissions. Total non-interest income for the three months ended March 31, 2008 was \$457,000 and was \$329,000 for the same period in 2007. Total non-interest income increased 38.9% from 2007 to 2008. Management projects that other fees and commissions and service charges on deposit accounts will increase throughout the remainder of 2008 due to growth of the Bank and will continue to enhance earnings, although net interest income will continue to provide the core earnings for the Bank. The increase in fees is primarily related to growth in volumes in investment brokerage activities.

Non-Interest Expense

Non-interest expenses consist primarily of employee costs, occupancy expenses, furniture and equipment expenses, and other operating expenses. The non-interest expense for the three months ended March 31, 2008 was \$2,409,000 and \$1,999,000 for the same period in 2007. The change in non-interest expense from 2007 to 2008 was an increase of 20.5%. The increase in non-interest expense is primarily due to growth of the Bank including the addition of personnel. The expense related to employee salaries and benefits increased by 18.4% from \$1,057,000 at March 31, 2007 to \$1,252,000 at March 31, 2008. In addition to the key personnel that have been added in the past year, the Bank has also seen group insurance costs rise, and incentive expenses have increased due to increased fee volumes related investment brokerage. Additionally, the Bank's professional fee expenses increased by 91.7%, from \$60,000 in the first quarter of 2007 to \$115,000 for the same period in 2008, due to the Bank's reporting requirements related to Section 404 of the Sarbanes-Oxley Act of 2002.

Income Taxes

The Bank had a loss during the first three months of 2008, and therefore, no income tax expense has been recorded. The Bank will record no income tax expense for 2008 due to the Bank's cumulative losses from the previous years of operation.

Financial Condition

Balance Sheet Summary.

The Bank's total assets were \$251,460,000 at March 31, 2008 and \$246,982,000 at December 31, 2007. Loans, net of allowance for loan losses, totaled \$197,652,000 at March 31, 2008 and \$191,074,000 at December 31, 2007. Investment securities totaled \$33,769,000 at March 31, 2008 and \$31,248,000 at December 31, 2007. Restricted equity securities totaled \$1,479,000 and \$1,439,000 at March 31, 2008 and December 31, 2007, respectively. The percentage changes for these assets are a 1.8% increase in total assets, a 3.4% increase in loans net of allowance for loan losses, and an 8.1% increase in investment securities.

Total liabilities increased by 1.9% to \$220,158,000 at March 31, 2008 from \$216,004,000 at December 31, 2007. Stockholders' equity increased 1.0% to \$31,302,000 at March 31, 2008 from \$30,978,000 at December 31, 2007. A more detailed discussion of assets, liabilities and capital follows.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Continued

Financial Condition, Continued

Loans

Loan categories are as follows:

	March 31, 2008		December 31, 2007	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Commercial, financial and agricultural	\$ 111,125	55.6%	\$ 106,564	55.2%
Consumer	3,729	1.9	3,480	1.8
Real estate – mortgage	30,636	15.3	27,611	14.3
Real estate - construction	54,405	27.2	55,451	28.7
Total	\$ 199,895	100.0%	\$ 193,106	100.0%

Loans are a large component of the Bank’s assets and are a primary source of income. The loan portfolio is composed of four primary loan categories: commercial, financial and agricultural; consumer; real estate - mortgage; and real estate - construction. The table above sets forth the loan categories and the percentage of such loans in the portfolio at March 31, 2008 and December 31, 2007.

As represented in the table, the largest loan growth was in commercial loans. At March 31, 2008, real estate loans are 42.5% of total loans. Accordingly, the Bank has a significant concentration of credit that is dependent on the continuing strength of the local real estate market. Management is making loans in an orderly fashion to maintain quality.

The Bank follows the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 114, “Accounting by Creditors for Impairment of a Loan” and SFAS No. 118, “Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures”. These pronouncements apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment including residential mortgage and consumer installment loans.

The federal regulatory agencies have also issued two “guidances” that could have a significant impact on real-estate related lending and, thus, on the operation of the Bank. One part of the guidance could require lenders to restrict lending secured primarily by certain categories of commercial real estate to a level of 300% of their capital or to raise additional capital. This could have the effect of causing the Bank to reorient its loan strategy away from, or to limit its expansion of, commercial real estate lending, which has been a material part of the Bank’s lending strategy. This could also have a negative impact on the Bank’s lending and profitability. The other guidance relates to the structuring of certain types of mortgages that allows negative amortization of consumer mortgage loans. Although the Bank does not engage at present in a significant amount of lending using these types of instruments, the guidance could have the effect of making the Bank less competitive in consumer mortgage lending.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Financial Condition, Continued

Loans, Continued

A loan is impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Bank shall recognize an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Bank's single family residential and consumer loans which total approximately \$29,712,000 and \$3,729,000, respectively at March 31, 2008, are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and thus are not subject to the provisions of SFAS Nos. 114 and 118. Substantially all other loans of the Bank are evaluated for impairment under the provisions of SFAS Nos. 114 and 118.

The Bank considers all loans subject to the provisions of SFAS Nos. 114 and 118 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Delays or shortfalls in loan payments are evaluated with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectability of outstanding principal is doubtful, such interest received is applied as a reduction of principal. A nonaccrual loan may be restored to accruing status when principal and interest is no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt. At March 31, 2008 there were 13 non-accrual loans related to two borrowers totaling \$1,745,000, and there were no non-accrual loans at December 31, 2007.

Other loans may be classified as impaired when the current net worth and financial capacity of the borrower or the collateral pledged, if any, is viewed as inadequate. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Bank will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Bank's criteria for nonaccrual status.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Financial Condition, Continued

Loans, Continued

Generally the Bank also classifies as impaired any loans the terms of which have been modified in a troubled debt restructuring. Interest is accrued on such loans that continue to meet the modified terms of their loan agreements. At March 31, 2008 and December 31, 2007, the Bank had no loans that have had the terms modified in a troubled debt restructuring.

The Bank's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged-off in the month when they are considered uncollectible.

Impaired loans and related allowance for loan loss allocation amounts at March 31, 2008 and December 31, 2007 were as follows:

	March 31, 2008	December 31, 2007
	<i>(In Thousands)</i>	
Recorded investment	\$ 5,280	4,970
Loan loss allocation	\$ 650	465

The average recorded investment in impaired loans for March 31, 2008 and December 31, 2007 was \$5,787,000 and \$2,670,000, respectively. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$402,000 for the first three months of 2008 and \$195,000 for year-end 2007. The Bank's level of impaired loans increased over the past quarter as a result of a "softness" in a significant segment of the residential construction real estate business in the Bank's market areas. There has been a perceived over supply of houses priced \$300,000 and greater, and the increase in impaired loans is a reflection of this. Bank management believes that existing loan loss reserves are adequate to absorb potential losses that may occur resulting from the "softness" of this real estate segment.

At March 31, 2008 and December 31, 2007, there were \$16,437,000 and \$16,088,000, respectively, in loans included in the Bank's internal classified loan list. Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the agreed repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

The allowance for loan losses is discussed under "Provision for Loan Losses". The Bank maintains its allowance for loan losses at an amount considered by management to be adequate to provide for the possibility of loan losses in the loan portfolio.

Essentially all of the Bank's loans originate from Rutherford and adjacent counties in Tennessee. The Bank seeks to exercise prudent risk management in lending, including diversification by loan category and industry segment, as well as by identification of credit risks.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Financial Condition, Continued

Loans, Continued

The Bank's management believes there is a significant opportunity to continue to increase the loan portfolio in the Bank's primary market area. The Bank has targeted commercial business lending, commercial and residential real estate lending and consumer lending. The Bank seeks to build a loan portfolio which is capable of adjusting to swings in the interest rate market, and it is the Bank's policy to maintain a diverse loan portfolio not dependent on any particular market or industrial segment. Management has set a goal for loans to approximate 100% of deposits.

Securities

Securities are a primary component of the Bank's earning assets. Securities totaled \$33,769,000 at March 31, 2008. This represents a 8.1% increase from the December 31, 2007 total of \$31,248,000. Restricted equity securities totaled \$1,479,000 and \$1,439,000 at March 31, 2008 and December 31, 2007, respectively.

The Bank applies the provisions of Statement of Financial Accounting Standards No. 115 (SFAS No. 115), "Accounting for Certain Investments in Debt and Equity Securities." Under the provisions of the Statement, securities are to be classified in three categories and accounted for as follows:

- Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized costs.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

The Bank has classified all its securities as available-for-sale. The investment securities portfolio is the second largest component of the Bank's earning assets and represented 13.4% of total assets at March 31, 2008. The Bank uses the investment securities portfolio to provide cash flow and to meet pledging requirements for deposits of public funds, securities sold under agreement to repurchase and secured Fed Funds lines of credit. The average yield on the investment securities portfolio during the first three months of 2008 was 5.58%.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Deposits

Deposits are the principal source of funds for the Bank. Total deposits were \$213,678,000 and \$207,448,000 at March 31, 2008 and December 31, 2007, respectively, an increase of 3.0%. The Bank has targeted local consumers, professionals, local governments and commercial businesses as its central customers; therefore, deposit instruments in the form of demand deposits, savings accounts, money market demand accounts, certificates of deposit and individual retirement accounts are offered to customers.

Management believes Rutherford County and the surrounding area is a growing economic market offering growth opportunities for the Bank; however, the Bank competes with several of the larger bank holding companies that have bank offices in this area, as well as other community banks; and therefore, no assurances of market growth can be given. Even though the Bank is in a very competitive market, management currently believes that its market share will be expanded. Management firmly believes that its position as a locally-owned financial institution that offers personalized service will contribute significantly to quality loans and deposit growth and profitability.

Non-interest bearing deposits increased 2.3% from \$25,987,000 on December 31, 2007 to \$26,593,000 on March 31, 2008. Total interest-bearing deposits increased by 3.1% from \$181,461,000 on December 31, 2007 to \$187,085,000 on March 31, 2008.

The table below sets forth the total balances of our deposits by type as of March 31, 2008 and December 31, 2007, and the percent change in balances over the intervening period:

	March 31, <u>2008</u>	December 31, <u>2007</u>	<u>% Change</u>
	<i>(In Thousands)</i>		
Non-interest bearing accounts	\$ 26,593	25,987	2.3%
NOW accounts	27,319	30,599	(10.7)
Money market accounts	39,764	36,095	10.2
Savings accounts	1,484	1,162	27.7
Certificates of deposit	112,877	108,283	4.2
Individual retirement accounts	<u>5,641</u>	<u>5,322</u>	<u>6.0</u>
Total deposits	<u>\$ 213,678</u>	<u>207,448</u>	<u>3.0%</u>

Liquidity and Asset Management

The Bank's management seeks to maximize net interest income by managing the Bank's assets and liabilities within appropriate constraints on capital, liquidity and interest rate risk. Liquidity is the ability to maintain sufficient cash levels necessary to fund operations, meet the requirements of depositors and borrowers and fund attractive investment opportunities. The Bank's primary source of liquidity is expected to be a stable core deposit base. In addition, short-term investments, loan payments and investment security maturities provide a secondary source. Higher levels of liquidity bear corresponding costs, measured in terms of lower yields on short-term more liquid earning assets and higher interest expense involved in extending liability maturities.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Liquidity and Asset Management, Continued

The Bank maintains a formal asset and liability management process to quantify, monitor and control interest rate risk and to assist management in maintaining stability in the net interest margin under varying interest rate environments. The Bank accomplishes this process through the development and implementation of lending, funding and pricing strategies designed to maximize net interest income under varying interest rate environments subject to specific liquidity and interest rate risk guidelines.

Analysis of rate sensitivity and rate gap analysis are the primary tools used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Included in the analysis are cash flows and maturities of financial instruments held for purposes other than trading, changes in market conditions, loan volumes and pricing and deposit volume and mix. These assumptions are inherently uncertain, and, as a result, net interest income cannot be precisely estimated nor can the impact of higher or lower interest rates on net interest income be precisely predicted. Actual results will differ due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management's strategies, among other factors.

The Bank's securities portfolio consists of earning assets that provide interest income. Securities classified as available-for-sale include securities intended to be used as part of the Bank's asset/liability strategy and/or securities that may be sold in response to changes in interest rate, prepayment risk, the need or desire to increase capital and similar economic factors. Securities totaling \$1.5 million mature or will be subject to rate adjustments within the next twelve months.

A secondary source of liquidity is the Bank's loan portfolio. At March 31, 2008, loans of approximately \$111.5 million either will become due or will be subject to rate adjustments within 12 months from the respective date.

As for liabilities, certificates of deposit of \$100,000 or greater of approximately \$61.8 million will become due during the next 12 months. Management anticipates that there will be no significant reductions from deposit accounts that allow withdrawals, such as negotiable order of withdrawal accounts, money market demand accounts, demand deposits and regular savings accounts in the future.

In previous filings, management had stated that the Bank anticipates that it will renovate and expand its main office facilities beginning sometime during 2008. Considering the Bank's current lack of earnings and the economic conditions in which the Bank is currently operating, management believes that it is prudent to delay construction until sometime during late-2009 or early-2010. The exact cost of the construction has not been determined, but construction expenses can be expected to exceed \$6,000,000.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Capital Position and Dividends

At March 31, 2008 and December 31, 2007, total stockholders' equity was \$31,302,000 and \$30,978,000 or 12.4% and 12.5%, respectively, of total assets.

The Bank's principal regulators have established minimum risk-based capital requirements and leverage capital requirements for the Bank. These guidelines classify capital into two categories of Tier I and Total risk-based capital. Total risk-based capital consists of Tier I (or core) capital (essentially common equity less intangible assets) and Tier II capital (essentially qualifying long-term debt, of which the Bank has none, and a part of the allowance for loan losses). In determining risk-based capital requirements, assets are assigned risk-weights of 0% to 100%, depending on regulatory assigned levels of credit risk associated with such assets.

There are statutory, regulatory and prudential limitations on the payment of dividends by the Bank. Tennessee law restricts the amount of dividends that may be paid by the Bank. In no event is a Tennessee chartered bank permitted to pay dividends in any calendar year that exceed the total of its net income of that year combined with its retained net income of the preceding two years without the prior approval of the Commissioner of the Tennessee Department of Financial Institutions. Prior regulatory approval must be obtained before declaring any dividends if the amount of the Bank's capital and surplus is below certain statutory limits. Dividends can also be restricted under federal law, and under state safety and soundness considerations, as a result of a declining or inadequate capital level. Future dividends may be paid at the discretion of the board of directors consistent with the regulatory, legal and prudential considerations discussed elsewhere in this document.

The table below sets forth the Bank's capital ratios as of the periods indicated.

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Tier I Risk-Based Capital	12.93%	13.40%
Regulatory Minimum	4.00%	4.00%
Well-capitalized Minimum	6.00%	6.00%
Total Risk-Based Capital	13.89%	14.30%
Regulatory Minimum	8.00%	8.00%
Well-capitalized Minimum	10.00%	10.00%
Tier I Leverage	12.55%	12.96%
Regulatory Minimum	4.00%	4.00%
Well-capitalized Minimum	5.00%	5.00%

The Bank's ratios are high when compared to industry averages and result from the fact that the Bank raised such a large amount of capital at its inception. The currently planned emphasis is on asset quality and growth in core deposits, both of which should be aided by the large stockholder base and the local market in which the Bank is located.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Off Balance Sheet Arrangements

At March 31, 2008, the Bank had unfunded loan commitments outstanding of \$55.7 million and outstanding standby letters of credit of \$2.2 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate Federal funds sold or securities available-for-sale or borrow funds from the Federal Home Loan Bank or purchase Federal funds from other financial institutions. Additionally, the Bank could sell participations in these or other loans to correspondent banks. As mentioned above, the Bank has been able to fund its ongoing liquidity needs through its stable core deposit base, loan payments, its investment security maturities and short-term borrowings.

Impact of Inflation

Although interest rates are significantly affected by inflation, the inflation rate is immaterial when reviewing the Bank's results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to Item 305(e) of Regulation S-K, the Registrant is not required to provide this information.

Item 4T. Controls and Procedures

Within the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and the Chief Financial Officer, of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information that we are required to disclose in the reports we file under the Securities Exchange Act of 1934, as amended ("Exchange Act") within the time periods specified in the Federal Reserve's rules and forms. Our Chief Executive Officer and Chief Financial Officer also concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our Bank required to be included in our periodic Federal Reserve filings. In connection with the new rules, we are in the process of further reviewing and documenting our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes designed to enhance their effectiveness and to ensure that our systems evolve with our business.

The Bank's common stock is registered under Section 12(g) of the Exchange Act, and is therefore subject to the requirements of Section 404, and other provision, of the Sarbanes-Oxley Act of 2002 ("SOX"). Under SOX, the Public Company Accounting Oversight Board has imposed significant internal procedures, internal controls, and other requirements on public companies such as the Bank, and compliance with these requirements may prove expensive to the Bank.

Please refer also to Item 2 of Part I of this Report for additional information concerning controls and procedures.

MIDSOUTH BANK

FORM 10-Q, CONTINUED

Item 4T. Controls and Procedures, Continued

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the our internal control over financial reporting.

MIDSOUTH BANK

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. RISK FACTORS

Not applicable.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) Shares of the Bank's common stock were issued during the first quarter of 2008 pursuant to the exercise of stock purchase warrants issued by the Bank in its initial offering of securities during its formation as a commercial bank, as follows:

<u>Date of Sale</u>	<u>Number of Shares of Common Stock Sold</u>	<u>Price Per Share</u>
01/04/2008	100	\$ 10.00
01/16/2008	25	\$ 10.00
02/20/2008	18	\$ 10.00
03/05/2008	125	\$ 10.00
03/06/2008	75	\$ 10.00
03/31/2008	150	\$ 10.00

The shares were sold for cash in the amount of \$4,930.

There were no underwriters and no underwriting discounts or commissions. All sales were for cash.

The Bank's common stock is exempt from registration under applicable state and federal securities law.

The shares of common stock issued pursuant to the exercise of the Bank's stock purchases warrants are not convertible or exchangeable into other equity securities.

The proceeds of the sales are being used by the Bank for general corporate purposes.

- (b) Not Applicable.
- (c) Not Applicable.
- (d) No repurchases for our securities were made during the quarter ended March 31, 2008. The only restrictions on working capital and/or dividends are those reported in Part I of this Report on Form 10-Q, as well as those discussed with respect to dividends in the Bank's Annual Report on Form 10-KSB, particularly in the section "Supervision and Regulation" and in the discussion of the Bank's common stock.

MIDSOUTH BANK

PART II. OTHER INFORMATION, CONTINUED

Item 3. DEFAULTS UPON SENIOR SECURITIES

- (a) None.
- (b) Not Applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) None.
- (b) Not Applicable.
- (c) Not Applicable.
- (d) Not Applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

- (a)(1) Exhibit 11 - Computation of Earnings (Loss) Per Share.
 - (2) Exhibit 31.1 and 31.2 consist of Rule 13a-14(a)/15d-14(a) certifications.
 - (3) Exhibit 32 consists of Section 1350 certifications. Any certification furnished pursuant to this Item will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section.
- (b) None.

MIDSOUTH BANK

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDSOUTH BANK

(Registrant)

DATE: May 12, 2008 /s/ Lee M. Moss
Lee M. Moss
Chairman and Chief Executive Officer

DATE: May 12, 2008 /s/ Kevin D. Busbey
Kevin D. Busbey
Senior Vice President and Chief Financial Officer

MIDSOUTH BANK**Computation of Earnings (Loss) Per Share**

The following is a summary of the components comprising basic and diluted earnings (loss) per common share of stock (EPS):

<i>(In Thousands, except share and per share amounts)</i>	<u>Three Months Ended</u>	
	<u>March 31,</u> <u>2008</u>	<u>March 31</u> <u>2007</u>
Basic EPS Computation:		
Numerator - earnings (loss) for the year	\$ (228)	26
Denominator - Weighted average number of common shares outstanding	<u>3,741,815</u>	<u>3,596,588</u>
Basic earnings (loss) per common share	<u>\$ (0.06)</u>	<u>0.01</u>
Diluted EPS Computation:		
Numerator - Loss for the year	\$ (228)	26
Denominator - Weighted average number of common shares outstanding	3,741,815	3,596,588
Dilutive effect of stock options	-	123,189
Dilutive effect of warrants	<u>-</u>	<u>233,934</u>
	<u>3,741,815</u>	<u>3,953,711</u>
Diluted earnings (loss) per common share	<u>\$ (0.06)</u>	<u>0.01</u>

The effect of stock options and stock purchase warrants were considered to be zero for the three months ended March 31, 2008 since the impact of the exercise of these derivative securities would be anti-dilutive.

CERTIFICATIONS

I, Lee M. Moss, certify that:

1. I have reviewed this Form 10-Q of MidSouth Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

May 12, 2008

/s/ Lee M. Moss
Lee M. Moss
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Kevin D. Busbey, certify that:

1. I have reviewed this Form 10-Q of MidSouth Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

May 12, 2008

/s/ Kevin D. Busbey
Kevin D. Busbey
Senior Vice President and Chief Financial Officer

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report of MidSouth Bank (the “Bank”) on Form 10-Q for the period ending March 31, 2008 as filed with the Federal Reserve on the date hereof (the “Report”), the undersigned, Lee M. Moss and Kevin D. Busbey, to the best of our knowledge certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Bank.

/s/ Lee M. Moss
Lee M. Moss
Chairman and Chief Executive Officer
May 12, 2008

/s/ Kevin D. Busbey
Kevin D. Busbey
Senior Vice President and Chief Financial Officer

May 12, 2008

* As set forth in Item 601 of Regulation S-K, any certification furnished pursuant to this Item will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section.