

**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, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark 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

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

Accelerated filer

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 stock, as of the latest practicable date:
Common stock, \$1.00 par value, outstanding: 3,841,735 shares at May 12, 2009

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, 2009 and December 31, 2008.

Consolidated Statements of Operations - For the three months ended March 31, 2009 and 2008.

Consolidated Statements of Comprehensive (Loss) Earnings - For the three months ended March 31, 2009 and 2008.

Consolidated Statements of Cash Flows - For the three months ended March 31, 2009 and 2008.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MIDSOUTH BANK

Consolidated Balance Sheets

March 31, 2009 and December 31, 2008

(Unaudited)

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	<i>(In Thousands, except share amounts)</i>	
<u>Assets</u>		
Loans, less allowance for loan losses of \$7,467,000 and \$5,784,000, Respectively	\$ 215,637	\$ 216,730
Securities available-for-sale, at market (amortized cost of \$29,677,000 and \$32,116,000, respectively)	30,825	33,146
Loans held for sale	1,639	594
Restricted equity securities	1,553	1,581
Interest-bearing accounts at other financial institutions	<u>664</u>	<u>132</u>
Total earning assets	<u>250,318</u>	<u>252,183</u>
Cash and due from banks	3,411	5,694
Bank premises and equipment, net	9,982	10,099
Accrued interest receivable	908	969
Foreclosed assets	1,414	1,487
Other assets	<u>356</u>	<u>405</u>
Total assets	<u>\$ 266,389</u>	<u>\$ 270,837</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits	\$ 221,100	\$ 222,930
Advances from Federal Home Loan Bank	13,447	13,467
Federal funds purchased	3,275	4,693
Securities sold under agreement to repurchase	1,087	836
Accrued interest payable	357	349
Accounts payable and other liabilities	<u>506</u>	<u>434</u>
Total liabilities	<u>239,772</u>	<u>242,709</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, 3,841,735 and 3,762,161 shares issued and outstanding, respectively	3,842	3,762
Additional paid-in capital	34,704	33,983
Deficit	(13,077)	(10,647)
Net unrealized gains on available-for-sale securities	<u>1,148</u>	<u>1,030</u>
Total stockholders' equity	<u>26,617</u>	<u>28,128</u>
COMMITMENTS AND CONTINGENCIES		
Total liabilities and stockholders' equity	<u>\$ 266,389</u>	<u>\$ 270,837</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Operations

Three Months Ended March 31, 2009 and 2008

(Unaudited)

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands, Except Per Share Amounts)</i>	
Interest income:		
Interest and fees on loans	\$ 3,031	\$ 3,236
Interest and dividends on taxable securities	397	419
Interest on Federal funds sold	1	6
Interest and dividends on restricted equity securities	<u>21</u>	<u>21</u>
Total interest income	<u>3,450</u>	<u>3,682</u>
Interest expense:		
Interest on negotiable order of withdrawal accounts	17	50
Interest on money market and other savings accounts	77	245
Interest on certificates of deposit	985	1,372
Interest on advances from Federal Home Loan Bank	37	38
Interest on Federal funds purchased	8	2
Interest on securities sold under agreement to repurchase	<u>2</u>	<u>2</u>
Total interest expense	<u>1,126</u>	<u>1,709</u>
Net interest income before provision for loan losses	2,324	1,973
Provision for loan losses	<u>2,670</u>	<u>249</u>
Net interest income (loss) after provision for loan losses	<u>(346)</u>	<u>1,724</u>
Non-interest income:		
Service charges on deposits	113	95
Other fees and commissions	104	89
Fees on mortgage originations	125	92
Fees from brokerage operations	85	142
Gain on sales of foreclosed assets, net	<u>-</u>	<u>39</u>
Total non-interest income	<u>427</u>	<u>457</u>
Non-interest expense:		
Employee salaries and benefits	1,242	1,252
Occupancy expenses, net	212	219
Furniture and equipment expense	113	120
FDIC insurance	153	42
Advertising expense	65	99
Other operating expenses	460	369
Professional fees	112	115
Data processing expense	119	164
Directors fees	15	29
Loss on sales of foreclosed assets, net	<u>20</u>	<u>-</u>
Total non-interest expense	<u>2,511</u>	<u>2,409</u>
Loss before income taxes	(2,430)	(228)
Income taxes	<u>-</u>	<u>-</u>
Loss	<u>\$ (2,430)</u>	<u>\$ (228)</u>
Basic loss per common share	<u>\$ (0.64)</u>	<u>\$ (0.06)</u>
Diluted loss per common share	<u>\$ (0.64)</u>	<u>\$ (0.06)</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Comprehensive (Loss) Earnings

Three Months Ended March 31, 2009 and 2008

(Unaudited)

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Net loss	\$ (2,430)	(228)
Other comprehensive earnings:		
Unrealized gains on available-for-sale securities arising during period	<u>118</u>	<u>541</u>
Comprehensive (loss) earnings	<u>\$ (2,312)</u>	<u>313</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2009 and 2008

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Cash flows from operating activities:		
Interest received	\$ 3,497	\$ 3,772
Fees received	302	276
Proceeds from sale of loans	7,824	8,545
Origination of loans held for sale	(8,744)	(8,054)
Interest paid	(1,118)	(1,701)
Cash paid to suppliers and employees	<u>(2,208)</u>	<u>(2,250)</u>
Net cash (used in) provided by operating activities	<u>(447)</u>	<u>588</u>
Cash flows from investing activities:		
Purchase of available-for-sale securities	-	(7,490)
Repayments of mortgage-backed securities	1,453	1,143
Purchase of restricted equity securities	(37)	(40)
Sale of restricted equity securities	65	-
Maturities of available-for-sale securities	1,000	4,374
Loans made to customers, net of repayments	(1,742)	(6,827)
Capitalized cost of foreclosed assets	-	(49)
Proceeds from sale of foreclosed assets	218	760
Purchase of premises and equipment	<u>(40)</u>	<u>(40)</u>
Net cash provided by (used in) investing activities	<u>917</u>	<u>(8,169)</u>
Cash flows from financing activities:		
Net increase in non-interest bearing, savings and NOW deposit accounts	4,950	1,302
Net (decrease) increase in time deposits	(6,794)	4,912
Net increase in mortgage escrow deposits	14	16
Increase in securities sold under agreements to repurchase	251	314
Proceeds from advances from the FHLB	-	27,845
Repayments of advances from the FHLB	(20)	(29,961)
Repayments of Federal funds purchased	(1,418)	(226)
Proceeds from sale of common stock	<u>796</u>	<u>4</u>
Net cash (used in) provided by financing activities	<u>(2,221)</u>	<u>4,206</u>
Net decrease in cash and cash equivalents	(1,751)	(3,375)
Cash and cash equivalents at beginning of period	<u>5,826</u>	<u>8,858</u>
Cash and cash equivalents at end of period	<u>\$ 4,075</u>	<u>\$ 5,483</u>

See accompanying notes to consolidated financial statements (unaudited).

MIDSOUTH BANK

Consolidated Statements of Cash Flows, Continued

Three Months Ended March 31, 2009 and 2008

Increase (Decrease) in Cash and Cash Equivalents

(Unaudited)

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Reconciliation of loss to net cash provided by operating activities:		
Loss	\$ (2,430)	\$ (228)
Adjustments to reconcile loss to net cash provided by operating activities:		
Depreciation	157	188
Provision for loan losses	2,670	249
Loss (gain) on sale of foreclosed assets	20	(39)
Stock option compensation expense	5	7
Amortization and accretion, net	(14)	(7)
(Increase) decrease in loans held for sale	(1,045)	399
Decrease in accrued interest receivable	61	97
Decrease (increase) in other assets	49	(30)
Increase in accrued interest payable	8	8
Increase (decrease) in other liabilities	<u>72</u>	<u>(56)</u>
Total adjustments	<u>1,983</u>	<u>816</u>
Net cash (used in) provided by operating activities	<u>\$ (447)</u>	<u>\$ 588</u>
 Supplemental Schedule of Non-Cash Activities:		
Unrealized gain in value of securities available-for-sale	<u>\$ 118</u>	<u>\$ 541</u>
Transfer of loans to foreclosed assets	<u>\$ 165</u>	<u>\$ -</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 accounting principles generally accepted in the United States of America 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, 2009 and December 31, 2008 and the results of operations for the three months ended March 31, 2009 and 2008, comprehensive (loss) earnings for the three months ended March 31, 2009 and 2008 and changes in cash flows for the three months ended March 31, 2009 and 2008. 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-K 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 2008 financial information to conform to the 2009 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, 2008 Form 10-K 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.

Allowance for Loan Losses

Transactions in the allowance for loan losses were as follows:

	Three Months Ended March 31,	
	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Balance, January 1, 2009 and 2008, respectively	\$ 5,784	\$ 2,032
Add (deduct):		
Losses charged to allowance	(988)	(41)
Recoveries credited to allowance	1	3
Provision for loan losses	<u>2,670</u>	<u>249</u>
Balance, March 31, 2009 and 2008, respectively	<u>\$ 7,467</u>	<u>\$ 2,243</u>

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

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Notes to Consolidated Financial Statements, Continued

(Unaudited)

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 provision for loan losses was \$2,670,000 and \$249,000 for the first three months of 2009 and 2008, respectively. The increase in the provision from 2008 to 2009 is primarily due to recording provisions for a \$2 million loan relationship involving a bank holding company in which the Bank participated and several other impaired loan relationships that have either declined in quality or have had the values of their underlying collateral deteriorate. Additional provisions have also been recorded to account for the decline in the local economy.

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 relationships in 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.

During the fourth quarter of 2008, the Bank recorded provisions in excess of \$3 million to account for a number of loan relationships that quickly deteriorated during that quarter due to the weakening local economy. The Bank added another \$2.7 million in provisions during the first quarter of 2009 to account for the continued decline in the local market and to account for a loan relationship for which the Bank obtained additional information subsequent to March 31, 2009. The increased provision related primarily to the Bank's participation in a loan to a bank holding company that was originated by another financial institution. That holding company's underlying subsidiary bank was placed in receivership by the Office of the Comptroller of the Currency, thereby rendering its stock value worthless. The Bank held a participation of \$2 million in that loan. At March 31, 2009, the allowance represented 3.35% of total loans as compared with 2.60% at December 31, 2008.

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, 2009, 470,000 options had been granted of which 41,500 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, 2009, 353,836 options were exercisable. The weighted average exercise price of outstanding and exercisable stock options for the three months ended March 31, 2009 and 2008 was \$10.03 and \$10.00 per share, respectively. The weighted average remaining contractual term of outstanding and exercisable stock options for the three months ended March 31, 2009 was 5.5 years and 5.4 years, respectively. The aggregate intrinsic value of outstanding and exercisable stock options for the three months ended March 31, 2009 was \$68,000 and \$67,000, respectively. As of March 31, 2009, there were total unrecognized compensation costs of \$46,000 related to non-vested share-based compensation arrangements granted under the Arrangement. Those costs are

MIDSOUTH BANK

Notes to Consolidated Financial Statements, Continued

(Unaudited)

expected to be recognized over a remaining weighted average period of 1.8 years. Compensation expense related to stock options totaled \$5,000 and \$7,000 for the three months ended March 31, 2009 and 2008, 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 Bank's initial offering of its common stock, any shares purchased received non-detachable warrants which provided 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 was 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. Any warrants that were not exercised expired on January 20, 2009. During January 2009, 79,574 warrants were exercised, and the remaining 430,357 unexercised warrants were forfeited. As of January 20, 2009 (date of expiration), 699,939 of these warrants had been exercised, and 559,047 had been forfeited or cancelled. The Bank currently has no outstanding warrants.

Earnings 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>	Three Months Ended	
	March 31, 2009	March 31, 2008
Basic EPS Computation:		
Numerator - Loss for the year	\$ (2,430)	\$ (228)
Denominator - Weighted average number of common shares outstanding	3,828,968	3,741,815
Basic earnings (loss) per common share	\$ (0.64)	\$ (0.06)
Diluted EPS Computation:		
Numerator - Loss for the year	\$ (2,430)	\$ (228)
Denominator - Weighted average number of common shares outstanding	3,828,968	3,741,815
Dilutive effect of stock options	-	-
Dilutive effect of warrants	-	-
	3,828,268	3,741,815
Diluted earnings (loss) per common share	\$ (0.64)	\$ (0.06)

The effect of stock options were considered to be zero for the three months ended March 31, 2009 since the impact of the exercise of these derivative securities would be anti-dilutive. There was no effect of stock purchase warrants at March 31, 2009 since there were no warrants outstanding. 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.

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Notes to Consolidated Financial Statements, Continued

(Unaudited)

Fair Value

During the first quarter of 2008, the Bank adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, which established a fair value hierarchy and required 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.

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:

(in 000's)	Carrying Value at March 31, 2009	Fair Value Measurements at March 31, 2009 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>				
Available-for-sale securities	\$ 30,825	-	30,825	-

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.

Assets and Liabilities Measured on a Non-Recurring Basis

(in 000's)	Carrying Value at March 31, 2009	Fair Value Measurements at March 31, 2009 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets:</u>				
Impaired loans	\$ 8,495	-	-	8,495
Loans held for sale	\$ 1,639	-	1,639	-

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, 2009, impaired loans had a carrying amount of \$13,721,000, with a valuation allowance of \$5,226,000.

Loans held for sale, which are carried at the lower of cost or fair value, did not have an impairment charge for the first quarter of 2009.

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Notes to Consolidated Financial Statements, Continued

(Unaudited)

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 141R, “Business Combinations.” SFAS No. 141R clarifies the definitions of both a business combination and a business. All business combinations will be accounted for under the acquisition method (previously referred to as the purchase method). This standard defines the acquisition date as the only relevant date for recognition and measurement of the fair value of consideration paid. SFAS No. 141R requires the acquirer to expense all acquisition related costs. SFAS No. 141R will also require acquired loans to be recorded net of the allowance for loan losses on the date of acquisition. SFAS No. 141R defines the measurement period as the time after the acquisition date during which the acquirer may make adjustments to the “provisional” amounts recognized at the acquisition date. This period cannot exceed one year, and any subsequent adjustments made to provisional amounts are done retrospectively and restate prior period data. The provisions of this statement are effective for business combinations during fiscal years beginning after December 15, 2008. The Bank does not expect the impact of SFAS No. 141R on its financial position and results of operations to be material.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in consolidated financial statements — An Amendment of ARB No. 51.” SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include net income and comprehensive income to be displayed for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement should be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. The Bank does not expect the impact of SFAS No. 160 on its financial position, results of operations or cash flows to be material.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities.” SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and how derivative instruments and related hedged items affect a company’s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Bank does not expect the impact of SFAS No. 161 on its financial position, results of operations or cash flows to be material.

In April 2009, the FASB issued Staff Position (“FSP”) FAS 157-4, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*,” provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have decreased significantly. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. The provisions of FSP FAS 157-4 are effective for the Bank’s interim period ending on June 30, 2009. Management is currently evaluating the effect that the provisions of FSP FAS 157-4 may have on the Bank’s statements of operation and condition.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board (“APB”) 28-1, “*Interim Disclosures about Fair Value of Financial Instruments*,” requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The provisions of FSP FAS 107-1 and APB 28-1 are effective for the Bank’s interim period ending on June 30, 2009. As FSP FAS 107-1 and APB 28-1 amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of FSP FAS 107-1 and APB 28-1 is not expected to affect the Bank’s statements of operation and condition.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, “*Recognition and Presentation of Other-Than-Temporary Impairments*,” amends current other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The

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Notes to Consolidated Financial Statements, Continued

(Unaudited)

provisions of FSP FAS 115-2 and FAS 124-2 are effective for the Bank's interim period ending on June 30, 2009. Management is currently evaluating the effect that the provisions of FSP FAS 115-2 and FAS 124-2 may have on the Bank's statements of operation and condition.

MIDSOUTH BANK

FORM 10-Q

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

General

MidSouth Bank began operations on January 20, 2004 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 deposit 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-K for the year ended December 31, 2008 as filed with the Federal Reserve in March of 2009. The Annual Report on Form 10-K also contains important information concerning the Bank, its operations, applicable laws and regulations, and other matters.

Please note that 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.

Recent Developments

The U. S. and global economies have experienced and are experiencing significant stress and disruptions in the financial sector. Dramatic slowdowns in the housing industry, with falling home prices and increasing foreclosures and unemployment, have resulted in major issues for financial institutions, including government-sponsored entities and investment banks. As the impact of financial declines ripples through the economy, it can be expected that many or most economic sectors will be adversely affected, thus impacting many or most components of the Bank's customer base. These issues have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

In response to the financial crisis affecting the banking and financial markets, in October 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law. Pursuant to the EESA, the U. S. Treasury (Treasury) has the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U. S. financial markets.

In addition, the Treasury announced that it has been authorized to purchase equity positions in U. S. financial institutions. Under this program, known as the Troubled Assets Relief Program Capital Purchase Program (TARP Capital Purchase Program), from the \$700 billion authorized by the EESA, the Treasury will be allowed to purchase up to \$250 billion of senior preferred stock in U. S. financial institutions. In conjunction with the purchase of senior preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the total amount of the senior preferred investment. Participating financial institutions will be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the

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Treasury holds equity issued under the TARP Capital Purchase Program, and they will be restricted from increasing dividends to common shareholders or repurchasing common stock for three years without the consent of the Treasury.

Further, after receiving a recommendation from the boards of the FDIC and the Federal Reserve, the Treasury signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing transaction deposit accounts under a Temporary Liquidity Guarantee Program. Coverage under the Temporary Liquidity Guarantee Program is available for 30 days without charge and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing transaction deposits.

The Bank decided to participate in the Temporary Liquidity Guarantee Program as it relates to noninterest-bearing deposit accounts but not in the program covering senior unsecured debt issues. The Bank initially applied for participation in the TARP Capital Purchase Program, but management, with Board of Director approval, has since withdrawn its application.

It is not clear at this time what impact the EESA, the TARP Capital Purchase Program, the Temporary Liquidity Guarantee Program, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the Bank and the U. S. and global financial markets.

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 \$2,430,000 for the first three months of 2009, compared to a loss of \$228,000 for the first three months of 2008. On a per share basis, the loss was \$0.64 per common share of stock for the first three months of 2009 compared to the net loss of \$0.06 per common share of stock for the first three months of 2008.

The primary reason for the Bank's loss for the first quarter of 2009 is due to management's recording provisions for loan losses of \$2.7 million. The large provision relates primarily to the Bank's \$2 million participation in a loan to a bank holding company, a loan that was originated by another larger commercial bank in our local

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market. The remainder of the provision relates to management evaluation of the local economy, which it considers to be weak but showing some signs of stabilizing.

Because the Bank has experienced exceptionally large loan loss provisions, the improvement in certain components of the core pre-provision earnings of the Bank have been overshadowed. The most important of these was the stabilizing of the Bank's net interest margin. Components of operations are discussed more fully in the following paragraphs.

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, 2009 was \$3,450,000 and total interest expense was \$1,126,000. Net interest income for the first three months of 2009 totaled \$2,324,000. For the same period in 2008 total interest income was \$3,682,000 and total interest expense was \$1,709,000. This represents a 6.3% decrease in total interest income and a 34.1% decrease in interest expense from 2008 to 2009. Net interest income for the first three months of 2008 was \$1,973,000. This represents an increase of 17.8% in net interest income from 2008 to 2009.

The main reasons for the increase in net interest income were: (1) the introduction of rate "floors" on our variable rate loans; and (2) the reduction of the Bank's interest expense, which decreased \$583,000, or 34.1%, from \$1,709,000 for the first quarter of 2008 to \$1,126,000 for the same period of 2009. Since the Federal Reserve was lowering Prime rates very quickly during that period, management focused its attention on that segment of the loan portfolio, and by adding rate "floors" to those loans as they renewed, that action helped stabilize MidSouth Bank's net interest margin in a quickly declining rate environment. Management also took actions to reduce the Bank's funding costs, especially in relation to the Bank's short-term borrowings and interest-bearing deposits. All of those efforts have been very effective as evidenced by the significant reduction in interest expense.

The Bank's net interest margin has stabilized as the Federal Reserve has not changed interest rates over the past several months, and management understands that the Federal Reserve has indicated that interest rates will remain unchanged for the foreseeable future. One national news agency recently reported that the Federal Reserve, at its April 2009 Federal Open Market Committee meeting, "pledged to keep its key bank lending rate at a record low 'for an extended period.'" That agency also reported that "economists are predicting that the Federal Reserve will keep the rate there well into next year." Based on that report and others like it, management believes that the Bank's net interest margin should remain relatively stable over the remainder of 2009.

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 \$2,670,000 for the first three months of 2009 and \$249,000 for the same period in 2008. 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, 2009 and December 31, 2008 to be adequate. The total allowance for loan losses was \$7,467,000, or 3.4% of loans, at March 31, 2009 and \$5,784,000, or 2.6% of loans, at December 31, 2008.

The provision for loan losses increased primarily due to management's recording large provisions for loan losses related to several reasons. The primary reason relates primarily to a \$2 million loan to a bank holding company that was originated by another bank in which the Bank was a participant. The remainder of the provision increase relates to management's evaluation of the local economy, which it considers to be weak but showing signs of stabilizing. Until the economy begins to recover, management expects there to be more borrowers that develop cash flow issues that will affect their ability to pay back their loans. Our reserve analysis and our provisions to the allowance for loan losses factor in these considerations, but if the economy continues to weaken, then the Bank may have to record higher than expected loan loss provisions during the remainder of 2009.

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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, 2009 was \$427,000 and was \$457,000 for the same period in 2008, which is a decrease of \$30,000, or 6.6%. The bulk of that decline was caused by reduced brokerage fee income, reflecting the decline in the value of the national stock markets. Beyond that decline, the Bank's mortgage origination fees, deposit service charges and other fees and commissions all increased when comparing first quarter 2009 with first quarter 2008. Mortgage origination fees have experienced the largest increase, growing \$33,000, or 35.9%, from the prior year due to factors like lower mortgage rates and tax credits being offered to first time home buyers.

Management believes that service charges on deposit accounts, other fees and commissions and mortgage origination fees will continue to increase throughout the remainder of 2009 and will continue to enhance earnings, although net interest income will continue to provide the core earnings for the Bank.

Non-Interest Expense

Non-interest expenses consist primarily of employee costs, occupancy expenses, furniture and equipment expenses, and other operating expenses. Non-interest expense for the three months ended March 31, 2009 was \$2,511,000, and it was \$2,409,000 for the same period in 2008, an increase of \$102,000, or 4.2%. The increase relates primarily to FDIC insurance premiums that have increased \$111,000, or 264.3%, over the \$42,000 in premiums for the same time period in 2008. In addition the Bank also has accrued \$85,000 for debit card fraud losses. To offset those expenses, the Bank has taken a number of actions to reduce its non-interest expenses for 2009. The following are some of the larger items that reduced non-interest expense during the first quarter of 2009 in comparison with the same period in 2008: (1) renegotiating the Bank's data processing contract – \$45,000 decrease; (2) reduction of advertising expenses – \$34,000 decrease; and (3) reduction of directors' fees – \$14,000 decrease. Other actions are expected to be implemented in the second quarter of 2009 that will provide additional decreases in non-interest expense. These include, but may not be limited to, elimination of 401(k) match expenses, further reduction of directors' fees, and reduction of executive management compensation/perquisites.

Income Taxes

The Bank will record no income tax expense for 2009 due to the Bank's cumulative losses from the previous years of operation.

Financial Condition

Balance Sheet Summary

The Bank's total assets were \$266,389,000 at March 31, 2009 and \$270,837,000 at December 31, 2008. Loans, net of allowance for loan losses, totaled \$215,637,000 at March 31, 2009 and \$216,730,000 at December 31, 2008. Investment securities totaled \$30,825,000 at March 31, 2009 and \$33,146,000 at December 31, 2008. Restricted equity securities totaled \$1,553,000 and \$1,581,000 at March 31, 2009 and December 31, 2008, respectively. The percentage changes for these assets are a 1.6% decrease in total assets, a 0.5% decrease in loans net of allowance for loan losses, and a 7.0% decrease in investment securities.

Total liabilities decreased by 1.2% to \$239,772,000 at March 31, 2009 from \$242,709,000 at December 31, 2008. Stockholders' equity decreased 5.4% to \$26,617,000 at March 31, 2009 from \$28,128,000 at December 31, 2008. A more detailed discussion of assets, liabilities and capital follows.

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Loans

Loan categories are as follows:

	March 31, 2009		December 31, 2008	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Commercial, financial and agricultural	\$ 131,033	58.7%	\$ 130,342	58.6%
Consumer	3,263	1.5	3,644	1.6
Real estate – mortgage	48,218	21.6	46,124	20.7
Real estate – construction	<u>40,590</u>	<u>18.2</u>	<u>42,404</u>	<u>19.1</u>
Total	<u>\$ 223,104</u>	<u>100.0%</u>	<u>\$ 222,514</u>	<u>100.0%</u>

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, 2009 and December 31, 2008.

As represented in the table, the loan growth was fairly level during the first quarter of 2009. At March 31, 2009, residential real estate loans are 39.8% 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 focused on making loans in an orderly fashion to maintain quality, especially in these strained economic times.

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 issued two "guidances" that 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.

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 \$46,693,000 and \$3,263,000, respectively at March 31, 2009, 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.

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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, 2009 there were 21 non-accrual loans totaling \$3,840,000, and there were five non-accrual loans totaling \$2,338,000 at December 31, 2008.

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.

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, 2009 and December 31, 2008, 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, 2009 and December 31, 2008 were as follows:

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<i>(In Thousands)</i>		
Recorded investment	\$ 11,608	\$ 7,879
Loan loss allocation	\$ 5,226	\$ 3,603

Impaired loans without allowance for loan loss allocation amounts at March 31, 2009 and December 31, 2008 were as follows:

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<i>(In Thousands)</i>		
Recorded investment	\$ 2,113	\$ 1,983

The average recorded investment in impaired loans for March 31, 2009 and December 31, 2008 was \$11,911,000 and \$6,308,000, respectively. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$652,000 for the first three months of 2009 and \$384,000 for year-end 2008. The Bank's level of impaired loans increased over the past quarter as a result of several commercial

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customers' cash flow issues within that segment of the loan portfolio. As the current economic recession has continued, it has affected a number of business customers and commercial real estate owners in addition to the borrowers in the real estate construction industry. Bank management believes that existing loan loss reserves are adequate to absorb potential losses that may occur in these segments of the portfolio.

At March 31, 2009 and December 31, 2008, there were \$27,100,000 and \$24,082,000, 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.

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 \$30,825,000 at March 31, 2009. This represents a 7.0% decrease from the December 31, 2008 total of \$33,146,000. Restricted equity securities totaled \$1,553,000 and \$1,581,000 at March 31, 2009 and December 31, 2008, respectively.

The Bank applies the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under the provisions of the Statement, securities are 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 11.6% of total assets at March 31, 2009. 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 2009 was 5.20%.

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Deposits

Deposits are the principal source of funds for the Bank. Total deposits were \$221,100,000 and \$222,930,000 at March 31, 2009 and December 31, 2008, respectively, a decrease of 0.8%. 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 0.7% from \$28,595,000 on December 31, 2008 to \$28,782,000 on March 31, 2009. Total interest-bearing deposits decreased by 1.0% from \$194,335,000 on December 31, 2008 to \$192,318,000 on March 31, 2009.

The table below sets forth the total balances of our deposits by type as of March 31, 2009 and December 31, 2008, and the percent change in balances over the intervening period:

	March 31, 2009	December 31, 2008	<u>% Change</u>
	<i>(In Thousands)</i>		
Non-interest bearing accounts	\$ 28,782	\$ 28,595	0.7%
NOW accounts	23,328	22,703	2.8
Money market accounts	43,210	39,330	9.9
Savings accounts	2,019	1,747	15.6
Certificates of deposit	117,813	125,068	(5.8)
Individual retirement accounts	5,948	5,487	8.4
Total deposits	<u>\$ 221,100</u>	<u>\$ 222,930</u>	<u>(0.8)%</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.

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

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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 \$1.3 million mature or will be subject to rate adjustments within the next 12 months.

A secondary source of liquidity is the Bank's loan portfolio. At March 31, 2009, loans of approximately \$118 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 \$47 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.

Capital Position and Dividends

At March 31, 2009 and December 31, 2008, total stockholders' equity was \$26,617,000 and \$28,128,000 or 10.0% and 10.4%, 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,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Tier I Leverage	9.43%	10.20%
Regulatory Minimum	4.00%	4.00%
Well-capitalized Minimum	5.00%	5.00%
Tier I Risk-Based Capital	10.34%	10.82%
Regulatory Minimum	4.00%	4.00%
Well-capitalized Minimum	6.00%	6.00%
Total Risk-Based Capital	11.61%	12.08%
Regulatory Minimum	8.00%	8.00%
Well-capitalized Minimum	10.00%	10.00%

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FORM 10-Q, CONTINUED

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

The Bank is considered well-capitalized based on its regulatory capital ratios. The currently planned emphasis for the short-term is on profitability, which will be primarily driven by asset quality. Due to the current economic downturn, asset quality is the main issue being faced by MidSouth Bank and the banking industry as a whole since a number of the Bank's customers are being impacted and may be unable to repay their loans.

The Bank has entered into an agreement with the Bank's regulatory agencies that provides for periodic reporting of the Bank's earnings, projections, annual budgets, strategic plans, capital plans and plans for the reduction of classified assets. The agreement also provides for additions of, or enhancements to, certain policies related to the Bank's lending and audit functions and for limitations on extensions of credit for certain classified borrower relationships.

Off Balance Sheet Arrangements

At March 31, 2009, the Bank had unfunded loan commitments outstanding of \$49.6 million and outstanding standby letters of credit of \$2.1 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, 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, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MIDSOUTH BANK

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. RISK FACTORS

Please refer to the discussion of “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008.

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 2009 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>
01/02/09	1,243	\$ 10.00
01/05/09	412	\$ 10.00
01/06/09	2,187	\$ 10.00
01/07/09	450	\$ 10.00
01/08/09	1,302	\$ 10.00
01/09/09	5,537	\$ 10.00
01/12/09	10,612	\$ 10.00
01/13/09	5,150	\$ 10.00
01/14/09	6,474	\$ 10.00
01/15/09	7,012	\$ 10.00
01/16/09	6,622	\$ 10.00
01/20/09	<u>32,573</u>	\$ 10.00
Total	<u>79,574</u>	

The shares were sold for cash in the amount of \$795,740.

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) No repurchases for our securities were made during the quarter ended March 31, 2009. 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-K, 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

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

- (a)(1) Exhibit 31.1 and 31.2 consist of Rule 13a-14(a)/15d-14(a) certifications.
 - (2) Exhibit 32 consists of Section 1350 certifications. 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 of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Further, any certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.
- (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 13, 2009

/s/ Lee M. Moss

Lee M. Moss
Chairman and Chief Executive Officer

DATE: May 13, 2009

/s/ Kevin D. Busbey

Kevin D. Busbey
Senior Vice President and Chief Financial Officer

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 13, 2009

/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 13, 2009

/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, 2009 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 13, 2009

/s/ Kevin D. Busbey
Kevin D. Busbey
Senior Vice President and Chief Financial Officer
May 13, 2009

* 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 of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Further, any certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.