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MIDSOUTH BANCORP INC
Form 10KSB
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2003

OR

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

Commission file number 2-91000-FW

MIDSOUTH BANCORP, INC.

(Exact name of small business issuer as specified in its charter)

Louisiana	72-1020809
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 Versailles Blvd., Lafayette, LA	70501
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code	(337) 237-8343
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Securities registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange on
Common Stock, \$.10 par value	which registered American Stock Exchange, Inc.

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB X

Total revenues for the year ended December 31, 2003 were

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\$27,148,545.

As of February 28, 2004, the aggregate market value of the voting stock held by non-affiliates of the Registrant, calculated by reference to the closing sale price of MidSouth's common stock on the AMEX was \$66,150,029. For the purpose of this calculation, shares held by officers, directors, the issuer's ESOP and 10% shareholders have been excluded. As of February 28, 2004, there were outstanding 3,198,879 shares of MidSouth Bancorp, Inc. common stock, \$.10 par value, which stock is the only class of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Proxy Statement for Annual Meeting of Shareholders to be held May 18, 2004 - (Part III)

PART I

ITEM 1 - Business.

The Company

MidSouth Bancorp, Inc. ("MidSouth") is a Louisiana corporation registered as a bank holding company under the Bank Holding Company Act of 1956. Its operations are conducted through, and its primary asset is, MidSouth Bank, N.A. (the "Bank"), a wholly-owned subsidiary. MidSouth is currently liquidating a second subsidiary, Financial Services of the South, Inc. (the "Finance Company"). MidSouth, the Bank and the Finance Company are referred to collectively herein as "the Company."

The Bank

The Bank is a national banking association domiciled in Lafayette, Louisiana. The Bank provides a broad range of commercial and retail banking services primarily to professional, commercial and industrial customers in its market area. These services include, but are not limited to, interest bearing and non-interest bearing checking accounts, investment accounts, credit card services, and loan products. The Bank is an U.S. government depository and is also a member of the Pulse network which provides its customers with automatic teller machine services through the GulfNet, Cirrus and Plus networks. Membership in the Community Cash Network provides MidSouth's customers with additional access throughout the Greater New Orleans area with no surcharge. The Bank operates

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at the twenty locations described below under "Item 2 - Properties."

Employees

As of December 31, 2003, the Bank employed 216 full-time equivalent employees and the Finance Company had no employees. MidSouth has no employees who are not also employees of the Bank. Through the Bank, employees receive employee benefits, which include an employee stock ownership plan, a 401-K plan and life, health and disability insurance plans. MidSouth considers the relationships of the Bank with their employees to be very good.

Competition

The Bank faces keen competition in its market area not only with other commercial banks, but also with savings and loan associations, credit unions, finance companies, mortgage companies, leasing companies, insurance companies, money market mutual funds and brokerage houses. Several of the banks in the Lafayette area are subsidiaries of holding companies or branches of banks having far greater resources than the Company.

Louisiana state banks may establish branch offices statewide, and national banks domiciled in Louisiana have the power to establish branches to the full extent that Louisiana banks may establish branches. Since 1989, Louisiana has allowed bank holding companies domiciled in any state of the United States to acquire Louisiana banks and bank holding companies, if the state in which the bank holding company is domiciled allows Louisiana banks and bank holding companies the same opportunities.

In 1994, the Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Act") was enacted. Among other things, the Interstate Act (i) allows bank holding companies to acquire a bank located in any state, subject to certain limitations that may be imposed by the state, (ii) allows

banks to merge across state lines, and (iii) permits banks to establish branches outside their state of domicile if expressly permitted by the law of the state in which the branch is to be located. In 1995, the Louisiana legislature enacted legislation permitting out of state bank holding companies after June 1,

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1997 to convert any banks owned in Louisiana into branches of out of state banks owned by such holding companies, subject to certain limitations.

Supervision and Regulation - Bank Holding Companies

General. As a bank holding company, MidSouth is subject to the Bank Holding Company Act of 1956 (the "Act") and is supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Act requires MidSouth to file periodic reports with the Federal Reserve Board and subjects MidSouth to regulation and examination by the Federal Reserve Board. The Act also requires MidSouth to obtain the prior approval of the Federal Reserve Board for acquisitions of substantially all of the assets of any bank or bank holding company or more than 5% of the voting shares of any bank or bank holding company. The Act prohibits MidSouth from engaging in any business other than banking or bank-related activities specifically allowed by the Federal Reserve Board and from engaging in certain tie-in arrangements in connection with any extension of credit or provision of any property or services.

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

Gramm-Leach-Bliley Act. This financial services reform legislation provides for three basic changes: 1) repeal of certain provisions of the Glass Steagall Act to permit commercial banks to affiliate with investment banks, 2) modification of the Bank Holding Company Act of 1956 to permit companies that own commercial

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banks to engage in any type of financial activity, and 3) allows subsidiaries of banks to engage in a broad range of financial activities beyond those permitted for banks themselves. As a result, banks, securities firms, and insurance companies will be able to combine much more readily. The legislation also includes important provisions regarding privacy of customer information; increased access to the Federal Home Loan Bank System by community banks; and significant changes to the requirements of the Community Reinvestment Act.

Under provisions of the legislation, two new types of regulated entities are authorized to engage in a broad range of financial activities much more extensive than those of standard holding companies. A "financial holding company" can engage in all newly-authorized activities and is simply a bank holding company whose depository institutions are well-capitalized, well-managed, and has a CRA rating of "satisfactory" or better. A "financial subsidiary" is a direct subsidiary of a bank that satisfies the same conditions as a

"financial holding company" plus several more. The "financial subsidiary" can engage in most of the newly-authorized activities, which are defined as securities, insurance, merchant banking/equity investment, "financial in nature," and "complementary" activities.

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

While this legislation created new opportunities for MidSouth to offer expanded services to its customer base in the future, MidSouth has not yet determined the nature of the expanded services or when the services will be offered.

Capital Adequacy Requirements. The Federal Reserve Board monitors the capital adequacy of bank holding companies through the use of a combination of risk-based capital guidelines and leverage ratios.

Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of a company's

assets. Certain off-balance sheet items, such as letters of credit and unused lines of credit, are also assigned risk-weights and included in the risk-based capital calculations. The guidelines require a minimum ratio of total qualifying capital to total risk-weighted assets of 8.0%, of which 4.0% must be in the form of Tier 1 capital. At December 31, 2003, the Company's ratios of Tier 1 and total capital to risk-weighted assets were 12.82% and 13.78%, respectively. MidSouth's leverage ratio (Tier 1 capital to total average adjusted assets) was 8.85% at December 31, 2003. All three regulatory capital ratios for the Company exceeded regulatory minimums at December 31, 2003.

Supervision and Regulation - National Banks

General. As a national banking association, the Bank is supervised and regulated by the Office of the Comptroller of the Currency (its primary regulatory authority), the Federal Reserve Board and the Federal Insurance Deposit Corporation. Under Section 23A of the Federal Reserve Act, the Bank is restricted in extending credit to or making investments in MidSouth and other affiliates defined in that act. National banks are required by the National Bank Act to adhere to branch banking laws applicable to state banks in the states in which they are located and are limited as to powers, locations and other matters of applicable federal law.

Capital Adequacy Requirements. A national bank is subject to regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct material effect on a bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, a bank must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. As of December 31, 2003, the most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain a minimum of total risk-based capital and Tier 1 capital to risk-weighted assets of 10% and

6%, respectively, and a minimum leverage ratio of 5%. All three regulatory capital ratios for the Bank exceeded these minimums at December 31, 2003.

Governmental Policies

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

ITEM 2 - Properties.

The Bank leases its principal executive and administrative offices and principal banking facility in Lafayette, Louisiana under a twenty-year lease expiring December 31, 2011. The Bank has six other banking offices in Lafayette, Louisiana, three in New Iberia and one banking office in each of Breaux Bridge, Cecilia, Jeanerette, Opelousas, Morgan City, Jennings, Lake Charles, and Sulphur Louisiana. Thirteen of these offices are owned and five are leased. MidSouth also leases space for two limited service banking offices in Thibodaux and Houma, Louisiana.

ITEM 3 - Legal Proceedings.

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

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ITEM 4 - Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of MidSouth's security holders in the fourth quarter of 2003.

Item 4A - Executive Officers of the Registrant

C. R. Cloutier, 56 - President, Chief Executive Officer and Director of MidSouth and the Bank for more than the past five years.

Karen L. Hail, 50 - Senior Executive Vice President and Chief Operations Officer and Director of the Bank, and Secretary and Treasurer and Director of MidSouth for more than the past five years.

Donald R. Landry, 47 - Senior Vice President and Senior Loan Officer of the

Bank for more than the past five years and named Executive Vice President in 2002.

Jennifer S. Fontenot, 49 - Senior Vice President for more than the past five years and named Chief Information Officer of the Bank in 2002.

Dwight Utz, 50 - Senior Vice President of Retail Banking since 2001; prior to his employment at the Bank, Mr. Utz was a Corporate Vice President for PNC Bank Corporation in Pittsburgh, Pennsylvania from 1973 to 2000.

Teri S. Stelly, 44 - Senior Vice President and Controller of MidSouth for more than the past five years and named Chief Financial Officer of the Bank in 2002.

Christopher J. Levanti, 37 - Joined MidSouth as Senior Vice President of Credit Administration in 2002; prior to his employment at the Bank, Mr. Levanti was Senior Credit Manager at First Data Merchant Services in Melville, New York from 2000 to 2002.

Gregory King, 48 - Joined MidSouth as Vice President and Loan Review Officer in 2003; promoted to Senior Vice President of Risk Management in 2004; prior to his employment with the Bank, Mr. King was Executive Vice President and Chief Operating Officer at LBA Savings Bank in

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Lafayette, Louisiana from 1997 to 2003. Prior to that position, Mr. King was employed as a national bank examiner.

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

PART II

ITEM 5 - Market for Registrant's Common Stock and Related Stockholder Matters.

As of December 31, 2003, there were 654 common shareholders of record. MidSouth's Common Stock is listed on the American Stock Exchange under the symbol "MSL." The high and low sales prices for the past eight quarters are provided in the Selected Quarterly Financial Data tables included with this filing under Item 7 and is incorporated herein by reference.

Cash dividends totaling \$992,648 were declared to common stockholders during 2003. The quarterly dividend was increased from \$.05 per share to \$.06 per share beginning in the third quarter of 2003 and a special dividend of \$.10 per share was paid in addition to the \$.06 per share for the fourth quarter of 2003. It is the intention of the Board of Directors of MidSouth to continue paying quarterly dividends on the common stock at a rate of \$.06 per share. Cash dividends totaling \$725,286 were declared to common stockholders during 2002. A Special Dividend of \$.05 per common share was paid in addition to the regular \$.05 dividend for the fourth quarter of 2002. Restrictions on the Company's ability to pay dividends are described in Item 7 below under the heading "Liquidity - Dividends" and in Note 13 of notes to the Company's consolidated financial statements.

MidSouth had no repurchases of its common stock during the fourth quarter of 2003.

FIVE-YEAR SUMMARY OF SELECTED
CONSOLIDATED FINANCIAL DATA

Year Ended December 31,

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	2003	2002	2001	2000	1
Gross interest income	\$24,230,450	\$24,125,789	\$26,424,027	\$24,449,115	\$21,0
Interest expense	(4,679,685)	(6,709,231)	(10,408,926)	(9,787,165)	(7,8
Net interest income	19,550,765	17,416,558	16,015,101	14,661,950	13,1
Provision for loan losses	(550,000)	(1,398,250)	(2,176,224)	(897,038)	(9
Other operating income	7,597,780	6,921,388	5,432,859	4,582,995	3,9
Other expenses	(17,970,856)	(17,082,360)	(15,462,472)	(14,501,566)	(12,7
Income before income taxes	8,627,689	5,857,336	3,809,264	3,846,341	3,5
Provision for income taxes	(2,294,376)	(1,428,253)	(866,105)	(951,204)	(8
Net Income	6,333,313	4,429,083	2,943,159	2,895,137	2,6
Preferred stock dividend requirement					