

WELLS FARGO & CO/MN
Form SC 13G/A
May 10, 2011

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

SCHEDULE 13G

**Under the Securities Exchange Act of 1934
(Amendment No. 1)**

PRIMO WTR CORP

(Name of Issuer)

COM

(Title of Class of Securities)

74165N105

(CUSIP Number)

April 30, 2011

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

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The information required in the remainder of this cover page shall not be deemed to be 'filed' for the purpose of Section 18 of the Securities Exchange Act of 1934 ('Act') or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 74165N105

Person 1

1. (a) Names of Reporting Persons.
Wells Fargo & Company

(b) Tax ID
41-0449260

2. Check the Appropriate Box if a Member of a Group (See Instructions)

(a)
(b)

3. SEC Use Only

4. Citizenship or Place of Organization Delaware

Number of
Shares
Beneficially
Owned by
Each Reporting
Person With

5. Sole Voting Power 556,526

6. Shared Voting Power 0

7. Sole Dispositive Power 996,434

8. Shared Dispositive Power 0

9. Aggregate Amount Beneficially Owned by Each Reporting Person 996,434

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

11. Percent of Class Represented by Amount in Row (9) 5 %

12. Type of Reporting Person (See Instructions)

HC

Item 1.

- (a) Name of Issuer
PRIMO WTR CORP
- (b) Address of Issuer's Principal Executive Offices
104 Cambridge Plaza Drive, Winston Salem, NC 27104

Item 2.

- (a) Name of Person Filing
Wells Fargo & Company
- (b) Address of Principal Business Office or, if none, Residence
420 Montgomery Street, San Francisco, CA 94104
- (c) Citizenship
Delaware
- (d) Title of Class of Securities
COM
- (e) CUSIP Number
74165N105

Item 3. If this statement is filed pursuant to 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) Broker or dealer registered under section 15 of the Act (15 U.S.C. 78c)
- (b) Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).
- (e) An investment adviser in accordance with 240.13d-1(b)(1)(ii)(E);
- (f) An employee benefit plan or endowment fund in accordance with 240.13d-1(b)(1)(ii)(F);

- (g) A parent holding company or control person in accordance with 240.13d-1(b)(1)(ii)(G);
- (h) A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i) A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) A non-U.S.institution in accordance with 240.13d-1(b)(1)(ii)(J);
- (k) Group, in accordance with 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S.institution in accordance with 240.13d-1(b)(1)(ii)(J), please specify the type of institution: _____

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount beneficially owned: 996,434
- (b) Percent of class: 5%
- (c) Number of shares as to which the person has:
 - (i) Sole power to vote or to direct the vote 556,526
 - (ii) Shared power to vote or to direct the vote 0
 - (iii) Sole power to dispose or to direct the disposition of 996,434
 - (iv) Shared power to dispose or to direct the disposition of 0

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following. .

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Not applicable

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.

See Exhibit B

Item 8. Identification and Classification of Members of the Group

Not applicable.

Item 9. Notice of Dissolution of Group

Not applicable.

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

May 9, 2011

Date

/s/ Jane E. Washington

Signature

Jane E. Washington, VP Trust Operations

Name/Title

Exhibit A

EXPLANATORY NOTE

This Schedule 13G is filed by Wells Fargo & Company on its own behalf and on behalf of any subsidiaries listed in Exhibit B. Aggregate beneficial ownership reported by Wells Fargo & Company under Item 9 on page 2 is on a consolidated basis and includes any beneficial ownership separately reported herein by a subsidiary.

Exhibit B

The Schedule 13G to which this attachment is appended is filed by Wells Fargo & Company on behalf of the following subsidiaries:

Wells Capital Management Incorporated (1)

Wells Fargo Advisors, LLC (2)

Wells Fargo Bank, N.A. (3)

Peregrine Capital Management, Inc. (1)

Wells Fargo Funds Management, LLC (1)

(1) Classified as a registered investment advisor in accordance with Regulation 13d-1(b)(1)(ii)(E). (2) Classified as a broker dealer in accordance with Regulation 13d-1(b)(1)(ii)(A). (3) Classified as a bank in accordance with Regulation 13d-1(b)(1)(ii)(B).

SIGNATURE

**Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations
(See 18 U.S.C. 1001)**

"> 1,242 321 1,639 98

Consumer – other

239 242 98 202 10

Residential – prime

291 291 21 255 1

Subtotal:

\$2,960 \$2,963 \$682 \$4,816 \$167

Totals:

Commercial

5,513 5,670 563 14,143 198

Consumer

287 301 98 267 13

Residential

1,142 1,142 21 1,589 29

Other

- - - 3 -

Grand total:

\$6,942 \$7,113 \$682 \$16,002 \$240

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Loans on Nonaccrual Status
(in thousands)

	March 31, 2012	December 31, 2011
Commercial, financial, and agricultural	\$ 1,917	\$ 1,897
Commercial real estate - construction	843	902
Commercial real estate - other	3,139	2,271
Consumer - credit card	-	-
Consumer - other	307	275
Residential - construction	-	-
Residential - prime	1,449	884
Residential - subprime	-	-
Other loans	-	-
Finance leases commercial	-	-
	\$ 7,655	\$ 6,229

The amount of interest that would have been recorded on nonaccrual loans, had the loans not been classified as nonaccrual, totaled approximately \$177,000 and \$296,000 for the three months ended March 31, 2012 and 2011, respectively. Interest actually received on nonaccrual loans at March 31, 2012 and 2011 was \$20,000 and \$35,000, respectively.

5. Earnings Per Common Share

Following is a summary of the information used in the computation of earnings per common share (in thousands):

	Three Months Ended March 31, 2012	2011
Net earnings available to common shareholders	\$ 2,486	\$ 442
Weighted average number of common shares outstanding used in computation of basic earnings per common share	10,465	9,720
Effect of dilutive securities:		
Stock options	8	14
Restricted Stock	7	2
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	10,480	9,736

Options to acquire 18,331 and 19,233 shares of common stock were not included in computing diluted earnings per share for the quarter ended March 31, 2012 and 2011, respectively, because the effect of these shares was anti-dilutive. The remaining 104,384 shares subject to the outstanding warrant issued in connection with the Capital Purchase Plan transaction were anti-dilutive and not included in the computation of diluted earnings per share for the quarters ended March 31, 2012 and 2011.

6. Declaration of Dividends

A first quarter dividend of \$0.07 per share for holders of common stock of record on March 15, 2012 was declared on January 25, 2012 and was paid on April 2, 2012. On April 18, 2012, the Company declared a second quarter dividend of \$0.07 per share for holders of common stock of record on June 15, 2012, to be paid on July 2, 2012.

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7. Fair Value Measurement

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Cash and Cash Equivalents—The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

Time Deposits Held in Banks— Fair values for fixed-rate time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on time deposits of similar terms of maturity.

Securities Available-for-Sale—Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using

independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Securities are classified as Level 2 within the valuation hierarchy when the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things. Level 2 inputs are used to value U.S. Agency securities, mortgage-backed securities, municipal securities, single issue trust preferred securities, certain pooled trust preferred securities, and certain equity securities that are not actively traded.

Other Investments—The carrying value of other investments is a reasonable estimate of fair value.

Loans—For disclosure purposes, the fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. The Company does not record loans at fair value on a recurring basis. No adjustment to fair value is taken related to illiquidity discounts. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management uses one of three methods to measure impairment, which, include collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or

collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral or where the loan balance has been charged down to fair value require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

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For non-performing loans, collateral valuations currently in file are reviewed for acceptability in terms of timeliness and applicability. Although each determination is made based on the facts and circumstances of each credit, generally valuations are no longer considered acceptable when there has been physical deterioration of the property from when it was last appraised, or there has been a significant change in the underlying assumptions of the appraisal. If the valuation is deemed to be unacceptable, a new appraisal is ordered. New appraisals are typically received within 4-6 weeks. While awaiting new appraisals, the valuation in the file is utilized, net of discounts. Discounts are derived from available relevant market data, selling costs, taxes, and insurance. Any perceived collateral deficiency utilizing the discounted value is specifically reserved (as required by ASC Topic 310) until the new appraisal is received or charged off. Thus, provisions or charge-offs are recognized in the period the credit is identified as non-performing.

The following sources are utilized to set appropriate discounts: market real estate agents, current local sales data, bank history for devaluation of similar property, Sheriff's valuations and buy/sell contracts. If a real estate agent is used to market and sell the property, values are discounted 10% for selling costs. Additional discounts may be applied if research from the above sources indicates a discount is appropriate given devaluation of similar property from the time of the initial valuation.

Other Real Estate—Other real estate (“ORE”) properties are adjusted to fair value upon transfer of the loans to other real estate, and annually thereafter to insure other real estate assets are carried at the lower of carrying value or fair value. Exceptions to obtaining initial appraisals are properties where a buy/sell agreement exists for the loan value or greater, or where a Sheriff's valuation has been received for properties liquidated through a Sheriff sale. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market prices, the Company records the other real estate asset as nonrecurring Level 3.

Cash Surrender Value of Life Insurance Policies—Fair value for life insurance cash surrender value is based on cash surrender values indicated by the insurance companies.

Deposits—The fair value of demand deposits, savings accounts, NOW accounts, and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The estimated fair value does not include customer related intangibles.

Securities Sold Under Agreements to Repurchase—The fair value approximates the carrying value of securities sold under agreements to repurchase due to their short-term nature.

Junior Subordinated Debentures—For junior subordinated debentures that bear interest on a floating basis, the carrying amount approximates fair value. For junior subordinated debentures that bear interest on a fixed rate basis, the fair value is estimated using a discounted cash flow analysis that applies interest rates currently being offered on similar types of borrowings.

Commitments to Extend Credit, Standby Letters of Credit and Credit Card Guarantees—Because commitments to extend credit and standby letters of credit are generally short-term and made using variable rates, the carrying value and estimated fair value associated with these instruments are immaterial.

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Assets Recorded at Fair Value

Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis (in thousands):

Description	Assets / Liabilities Measured at Fair Value at March 31, 2012	Fair Value Measurements at March 31, 2012 using:		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored enterprises	\$ 84,744	\$ -	\$ 84,744	\$ -
Obligations of state and political subdivisions	92,338	-	92,338	-
GSE mortgage-backed securities	117,054	-	117,054	-
Asset-backed securities	4,380	-	4,380	-
Collateralized mortgage obligations: residential	42,781	-	42,781	-
Collateralized mortgage obligations: commercial	24,713	-	24,713	-
	\$ 366,010	\$ -	\$ 366,010	\$ -

Description	Assets / Liabilities Measured at Fair Value at December 31, 2011	Fair Value Measurements at December 31, 2011 using:		
		Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored enterprises	\$ 94,999	\$ -	\$ 94,999	\$ -
Obligations of state and political subdivisions	96,149	-	96,149	-
GSE mortgage-backed securities	109,487	-	109,487	-
Collateralized mortgage obligations: residential	41,468	-	41,468	-
Collateralized mortgage obligations: commercial	25,138	-	25,138	-
	\$ 367,241	\$ -	\$ 367,241	\$ -

Certain assets and liabilities are measured at fair value on a nonrecurring basis and are included in the table below (in thousands). Impaired loans are level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Other real estate properties are also level 2 assets measured using appraisals from external parties.

Description	Assets / Liabilities Measured at Fair Value at March 31, 2012	Fair Value Measurements at March 31, 2012 using:		
		Level 1	Level 2	Level 3
Impaired loans	\$ 2,630	\$ -	\$ 2,630	\$ -
Other real estate	\$ 7,120	\$ -	\$ 7,120	\$ -

Description	Assets / Liabilities			
	Measured at Fair Value at December 31, 2011	Fair Value Measurements at December 31, 2011 using:		
		Level 1	Level 2	Level 3
Impaired loans	\$ 2,994	\$ -	\$ 2,994	\$ -
Other real estate	\$ 7,369	\$ -	\$ 7,369	\$ -

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Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows at March 31, 2012 and December 31, 2011 (in thousands):

	Carrying Value	Fair Value Measurements at March 31, 2012 Using:		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	\$ 104,326	\$ 104,326	\$ -	\$ -
Time deposits held in banks	710	-	-	711
Securities available-for-sale	366,010	-	366,010	-
Securities held-to-maturity	96,817	-	98,033	-
Other investments	5,634	-	-	5,634
Loans, net	740,689	-	-	747,075
Cash surrender value of life insurance policies	4,837	-	4,837	-
Financial liabilities:				
Non-interest-bearing deposits	271,447	271,447	-	-
Interest-bearing deposits	905,719	-	-	908,246
Securities sold under agreements to repurchase	49,055	49,055	-	-
Junior subordinated debentures	15,465	-	-	17,283
December 31, 2011				
		Carrying Amount	Fair Value	
Financial assets:				
Cash and cash equivalents		\$ 83,303	\$ 83,303	
Time deposits held in banks		710	716	
Securities available-for-sale		367,241	367,241	
Securities held-to-maturity		100,472	101,131	
Other investments		5,637	5,637	
Loans, net		739,029	747,156	
Cash surrender value of life insurance policies		4,853	4,853	

Financial liabilities:

Non-interest-bearing deposits	254,755	254,755
Interest-bearing deposits	910,051	913,204
Securities sold under agreements to repurchase	46,078	46,078
Junior subordinated debentures	15,465	17,343

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

MidSouth Bancorp, Inc. (the "Company") is a bank holding company headquartered in Lafayette, Louisiana that conducts substantially all of its business through its wholly-owned subsidiary bank MidSouth Bank, N.A. (the "Bank"). We offer complete banking services to commercial and retail customers in south Louisiana and south and central Texas with 40 locations and are connected to a worldwide ATM network that provides customers with access to more than 43,000 surcharge-free ATMs. We are community oriented and focus primarily on offering commercial and consumer loan and deposit services to individuals, small businesses, and middle market businesses.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying this report. We encourage you to read this discussion in conjunction with our consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto, and related Management's Discussion and Analysis of Financial Condition and Results of Operation in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Forward-Looking Statements

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

The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "will," "would," "could," "should," "guarantee," "continue," "project," "forecast," "confident," and similar expressions are typically used to identify forward-looking statements. These statements are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties and may be affected by various factors that may cause actual results, developments and business decisions to differ materially from those in the forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include the factors discussed under the caption "Risk Factors" in our 2011 Annual Report on form 10-K and under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report and the following:

- changes in interest rates and market prices that could affect the net interest margin, asset valuation, and expense levels;
- changes in local economic and business conditions, including, without limitation, changes related to the oil and gas industries, that could adversely affect customers and their ability to repay borrowings under agreed upon terms, adversely affect the value of the underlying collateral related to their borrowings, and reduce demand for loans;
 - increased competition for deposits and loans which could affect compositions, rates and terms;
- changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of the earning assets;
- a deviation in actual experience from the underlying assumptions used to determine and establish our allowance for loan losses ("ALLL"), which could result in greater than expected loan losses;
 - changes in the availability of funds resulting from reduced liquidity or increased costs;
-

the timing and impact of future acquisitions, the success or failure of integrating acquired operations, and the ability to capitalize on growth opportunities upon entering new markets;

- the ability to acquire, operate, and maintain effective and efficient operating systems;
- increased asset levels and changes in the composition of assets that would impact capital levels and regulatory capital ratios;
- loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels;

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- legislative and regulatory changes, including the impact of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and other changes in banking, securities and tax laws and regulations and their application by our regulators, changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverage;
- regulations and restrictions resulting from our participation in government sponsored programs such as the U.S. Treasury’s Small Business Lending Fund, including potential retroactive changes in such programs;
 - changes in accounting principles, policies, and guidelines applicable to bank holding companies and banking;
 - acts of war, terrorism, cyber intrusion, weather, or other catastrophic events beyond our control; and
 - the ability to manage the risks involved in the foregoing.

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

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements included in this report. The accounting principles we follow and the methods of applying these principles conform to accounting principles generally accepted in the United States of America (“GAAP”) and general banking practices. Our most critical accounting policy relates to the determination of the allowance for loan losses (“ALL”), which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The determination of the adequacy of the allowance involves significant judgment and complexity and is based on many factors. If the financial condition of our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the estimates would be updated and additional provisions for loan losses may be required. See Asset Quality – Nonperforming Assets and Allowance for Loan Losses and Note 1 and Note 4 of the footnotes to the consolidated financial statements.

Another of our critical accounting policies relates to the valuation of goodwill, intangible assets and other purchase accounting adjustments. We account for acquisitions in accordance with ASC Topic No. 805, which requires the use of the purchase method of accounting. Under this method, we are required to record assets acquired and liabilities assumed at their fair value, including intangible assets. Determination of fair value involves estimates based on internal valuations of discounted cash flow analyses performed, third party valuations, or other valuation techniques that involve subjective assumptions. Additionally, the term of the useful lives and appropriate amortization periods of intangible assets is subjective. Resulting goodwill from an acquisition under the purchase method of accounting represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is evaluated for impairment annually or more frequently if deemed necessary. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings. Given the instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses and goodwill impairment could change in the near-term or could result in impairment going forward.

A third critical accounting policy relates to deferred tax assets and liabilities. We record deferred tax assets and deferred tax liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a

change in tax rates is recognized in income tax expense in the period that includes the enactment date. In the event the future tax consequences of differences between the financial reporting bases and the tax bases of our assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided when it is more likely than not that a portion or the full amount of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. A deferred tax liability is not recognized for portions of the allowance for loan losses for income tax purposes in excess of the financial statement balance. Such a deferred tax liability will only be recognized when it becomes apparent that those temporary differences will reverse in the foreseeable future. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent more likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

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Results of Operations

Earnings Analysis

We reported net earnings available to common shareholders of \$2.5 million for the first quarter of 2012, compared to net earnings available to common shareholders of \$442,000 reported for the first quarter of 2011. Diluted earnings for the first quarter of 2012 were \$0.24 per common share, up from the \$0.05 per common share for the first quarter of 2011.

Net earnings increased as a \$3.9 million increase in net interest income, a \$925,000 decrease in the provision for loan losses and a \$498,000 increase in noninterest income were partially offset by a \$1.9 million increase in noninterest expense and a \$1.2 million increase in income tax expense. Of the \$3.9 million increase in net interest income, a total of \$1.3 million was earned from the branches acquired in the third and fourth quarters of 2011. Purchase accounting adjustments totaling \$889,000 also contributed to the increase in net interest income. Interest income on investments and other interest-bearing accounts increased \$1.0 million in quarterly comparison and included interest earned on excess cash invested from the 2011 acquisitions. The provision for loan losses decreased from \$1.6 million for the first quarter of 2011 to \$675,000 for the first quarter of 2012. The \$925,000 decrease in the provision for loan losses resulted primarily from a lower volume of charge-offs for the first quarter of 2012, compared to the first quarter of 2011.

Increases in noninterest income consisted primarily of \$248,000 in ATM/debit card income, \$115,000 in income recorded on ORE and \$87,000 in service charges on deposit accounts. Increases in noninterest expenses, excluding operating expenses on the acquired branches, included \$377,000 in salaries and benefits costs, \$103,000 in occupancy expense and \$174,000 in data processing expense. Operating expenses recorded for the acquisitions during the first quarter of 2012 totaled \$1.3 million and consisted primarily of \$546,000 in salaries and benefits costs, \$392,000 in occupancy expenses, and \$182,000 in amortization costs of core deposit intangibles resulting from the acquisitions.

Net Interest Income

Our primary source of earnings is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and other interest-bearing liabilities. Changes in the volume and mix of earning assets and interest-bearing liabilities combined with changes in market rates of interest greatly affect net interest income. Our net interest margin on a taxable equivalent basis, which is net interest income as a percentage of average earning assets, was 4.49% and 4.51% for the three months ended March 31, 2012 and 2011, respectively. Tables 1 and 2 below analyze the changes in net interest income in the three months ended March 31, 2012 and 2011.

Fully taxable-equivalent (“FTE”) net interest income totaled \$14.1 million and \$10.3 million for the quarters ended March 31, 2012 and 2011, respectively. The FTE net interest income increased \$3.8 million in prior year comparison primarily due to a \$335.6 million increase in the volume of average earning assets as a result of the three acquisitions completed in the second half of 2011. The average volume of loans increased \$169.6 million in quarterly comparison and the average yield on loans increased 1 basis point, from 6.71% to 6.72%. Purchase accounting adjustments on acquired loans added 28 basis points to the average yield on loans for the first quarter of 2012. Net of the impact of the purchase accounting adjustments, average loan yields declined 27 basis points in prior year quarterly comparison to 6.44%. Loan yields have declined primarily as the result of a market environment of sustained low interest rates.

The average volume of investment securities increased \$189.1 million in quarterly comparison as portions of excess cash flow from the 2011 acquisitions were placed primarily in agency mortgage-backed securities. The average tax equivalent yield on investment securities decreased 52 basis points, from 3.32% to 2.80% primarily due to lower

reinvestment rates. The average volume of time and overnight interest bearing deposits earning 0.26% decreased \$22.5 million due to the purchase of investment securities. The average yield on all earning assets decreased 16 basis points in prior year quarterly comparison, from 5.14% for the first quarter of 2011 to 4.98% for the first quarter of 2012. Net of the impact of purchase accounting adjustments, the average yield on total earning assets declined 32 basis points, from 5.14% to 4.82% for the three month periods ended March 31, 2011 and 2012, respectively.

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Interest expense increased despite a 24 basis point reduction in the average rate paid on interest bearing liabilities, from 0.88% at March 31, 2011 to 0.64% at March 31, 2012. The average volume of interest-bearing deposits increased \$296.7 million in prior year quarterly comparison primarily due to deposits assumed with the three acquisitions. Net of purchase accounting adjustments on acquired certificates of deposit, the average rate paid on interest bearing liabilities was 0.80% for the first quarter of 2012 compared to 0.88% for the first quarter of 2011.

The average rate paid on the Company's junior subordinated debentures increased 8 basis points from first quarter of 2011 to first quarter of 2012 due to the rate change on the \$8.2 million of variable rate debentures. The debentures carry a floating rate equal to the 3-month LIBOR plus 2.50%, adjustable and payable quarterly. The rate at March 31, 2012 was 2.97%. The debentures mature on September 20, 2034 but may be repaid sooner, under certain circumstances. The Company also has outstanding \$7.2 million of junior subordinated debentures due 2031 that carry a fixed interest rate of 10.20%.

As a result of these changes in volume and yield on earning assets and interest bearing liabilities, the FTE net interest margin decreased 2 basis points, from 4.51% for the first quarter of 2011 to 4.49% for the first quarter of 2012. Net of a 28 basis point effect of purchase accounting adjustments on loans and deposits, the FTE margin decreased 30 basis points, from 4.51% for the first quarter of 2011 to 4.21% for the first quarter of 2012.

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Table 1
Consolidated Average Balances, Interest and Rates
(in thousands)

	Three Months Ended March 31,						
	2012					2011	
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Average Yield/Rate	
Assets							
Investment securities¹							
Taxable	\$365,302	\$2,069	2.27 %	\$160,067	\$867	2.17 %	
Tax exempt ²	85,964	1,093	5.09 %	102,145	1,311	5.13 %	
Total investment securities	451,266	3,162	2.80 %	262,212	2,178	3.32 %	
Federal funds sold	4,108	2	0.19 %	5,267	3	0.23 %	
Time and interest bearing deposits in other banks							
Other investments	60,045	39	0.26 %	82,573	75	0.36 %	
	5,636	45	3.19 %	5,060	38	3.00 %	
Loans							
Commercial and real estate	639,970	10,486	6.59 %	490,655	7,797	6.44 %	
Installment	102,625	1,916	7.51 %	82,325	1,679	8.27 %	
Total loans ³	742,595	12,402	6.72 %	572,980	9,476	6.71 %	
Total earning assets	1,263,650	15,650	4.98 %	928,092	11,770	5.14 %	
Allowance for loan losses	(7,171)			(8,217)			
Nonearning assets	139,485			90,149			
Total assets	\$1,395,964			\$1,010,024			
Liabilities and shareholders' equity							
NOW, money market, and savings							
Time deposits	\$590,090	\$470	0.32 %	\$488,025	\$638	0.53 %	
Total interest bearing deposits	309,556	630	0.82 %	114,929	370	1.31 %	
	899,646	1,100	0.49 %	602,954	1,008	0.68 %	
Securities sold under repurchase agreements							
Federal funds purchased	45,867	181	1.59 %	46,211	197	1.71 %	
Other borrowings	4	-	-	-	-	-	
Junior subordinated debentures	2	-	-	-	-	-	
Total interest bearing liabilities	15,465	248	6.34 %	15,465	242	6.26 %	
	960,984	1,529	0.64 %	664,630	1,447	0.88 %	
Demand deposits	262,110			202,079			
Other liabilities	9,393			6,189			
Shareholders' equity	163,477			137,126			
Total liabilities and shareholders' equity	\$1,395,964			\$1,010,024			
Net interest income and net interest spread							
		\$14,121	4.34 %		\$10,323	4.26 %	
Net yield on interest earning assets							
			4.49 %			4.51 %	

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- 1 Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.
 - 2 Interest income of \$318,000 for 2012 and \$382,000 for 2011 is added to interest earned on tax-exempt obligations to reflect tax equivalent yields using a 34% tax rate.
 - 3 Interest income includes loan fees of \$790,000 for 2012 and \$713,000 for 2011. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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Table 2
Changes in Taxable-Equivalent Net Interest Income
(in thousands)

	Three Months Ended		
	March 31, 2012 compared to March 31, 2011		
	Total	Change	
	Increase	Attributable To	
	(Decrease)	Volume	Rates
Taxable-equivalent earned on:			
Investment securities			
Taxable	\$ 1,202	\$ 1,160	\$ 42
Tax exempt	(218)	(206)	(12)
Federal funds sold	(1)	(1)	-
Time and interest bearing deposits in other banks			
Other investments	(36)	(17)	(19)
Loans, including fees	2,926	2,808	118
Total	3,880	3,749	131
Interest paid on:			
Interest bearing deposits	92	411	(319)
Securities sold under repurchase agreements	(16)	(1)	(15)
Junior subordinated debentures	6	-	6
Total	82	410	(328)
Taxable-equivalent net interest income	\$ 3,798	\$ 3,339	\$ 459

Note: In Table 2, changes due to volume and rate have generally been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts to the changes in each.

Non-interest Income

Non-interest income for the first quarter of 2012 totaled \$3.5 million, an increase of \$498,000 from the \$3.0 million earned in the first quarter of 2011. In prior-year quarterly comparison, increases in noninterest income consisted primarily of approximately \$248,000 in ATM/debit card income, \$115,000 in income recorded on ORE and \$87,000 in service charges on deposit accounts.

Non-interest Expenses

Non-interest expense increased \$1.9 million in prior year quarterly comparison and included \$1.3 million of operating expenses for the branches acquired during the second half of 2011. Operating expenses recorded for the acquired branches during the first quarter of 2012 included \$546,000 in salaries and benefits costs, \$392,000 in occupancy expenses, and \$182,000 in amortization costs of core deposit intangibles resulting from the acquisitions. Other increases in non-interest expenses (exclusive of branch acquisition operating costs) included \$377,000 in salaries and benefits costs and \$103,000 in occupancy expenses.

Analysis of Balance Sheet

Total assets at March 31, 2012 were \$1.4 billion and remained unchanged from the \$1.4 billion reported at December 31, 2011. Deposits totaled \$1.2 billion as of March 31, 2012 and at December 31, 2011. Non-interest bearing deposits were 23.1% of total deposits at March 31, 2012, compared to 21.9% at December 31, 2011. Core deposits, excluding time deposits, increased \$41.8 million in the first quarter of 2012, improving the Bank's deposit mix. A \$29.4 million decrease in time deposits combined with the \$41.8 million increase in core deposits resulted in a \$12.4 million net increase in total deposits for the quarter-ended March 31, 2012. The decrease in time deposits resulted primarily from run-off of high cost, single service time deposits acquired through the branch purchases in 2011.

Securities available-for-sale totaled \$366.0 million at March 31, 2012, down \$1.2 million from \$367.2 million at December 31, 2011. For the three months ended March 31, 2012, purchases of \$19.9 million in the available-for-sale portfolio were exceeded by calls, maturities and paydowns on mortgage-backed securities. Securities held-to-maturity decreased \$3.7 million, from \$100.5 million at December 31, 2011 to \$96.8 million at March 31, 2012 due to calls and maturities within the portfolio.

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Total loans were \$747.8 million at March 31, 2012, an increase of \$1.5 million compared to \$746.3 million at December 31, 2011. The composition of the Company's loan portfolio is reflected in Table 3 below.

Table 3
Composition of Loans
(in thousands)

	March 31, 2012	December 31, 2011
Commercial, financial, and agricultural	\$ 221,855	\$ 223,283
Lease financing receivable	3,840	4,276
Real estate – commercial	283,114	280,798
Real estate – commercial construction	44,784	41,463
Real estate – residential	112,142	113,582
Real estate – residential construction	10,536	11,249
Installment loans to individuals	70,085	69,980
Other	1,411	1,674
Total loans	\$ 747,767	\$ 746,305

The loan portfolio remained relatively flat for the first quarter of 2012. The commercial, financial and agricultural (“C&I”) loans decreased minimally by \$1.4 million over the first three months of 2012. The commercial real estate portfolio grew by \$2.3 million. Real estate construction loans increased \$2.6 million. Within the \$283.1 million commercial real estate portfolio, \$266.7 million is secured by commercial property, \$8.7 million is secured by multi-family property, and \$7.7 million is secured by farmland. Of the \$266.7 million secured by commercial property, \$165.7 million, or 62.1%, is owner-occupied. Of the \$112.1 million residential real estate portfolio, 88.1% represented loans secured by first liens. We believe our risk within the real estate and construction portfolios is diversified throughout our markets and that current exposure within the two portfolios is sufficiently provided for within the ALL at March 31, 2012.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. For the period ended March 31, 2012, we did not engage in any off-balance sheet transactions reasonably likely to have a material impact on our financial condition, results of operations or cash flows.

Liquidity and Capital

Bank Liquidity

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

Liquidity is provided primarily by three sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, and borrowing lines with correspondent banks. Our core deposits are our most stable and important source of funding. Cash deposits at other banks, federal funds sold, and principal payments received on

loans and mortgage-backed securities provide additional primary sources of liquidity. Approximately \$121.0 million in projected cash flows from securities repayments for the remainder of 2012 provides an additional source of liquidity.

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The Bank also has significant borrowing capacity with the FRB-Atlanta and with the FHLB-Dallas. As of March 31, 2012, we had no borrowings with the FRB-Atlanta or the FHLB-Dallas. The Company has \$21.6 million in borrowing capacity at the FRB Discount Window and has the ability to post additional collateral of approximately \$312.4 million if necessary to meet liquidity needs. Additionally, \$9.5 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled \$285.0 million at March 31, 2012. Additional unsecured borrowing lines totaling \$48.5 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

Company Liquidity

In August 2011, we repaid \$20.0 million in Series A Preferred Stock issued to the Treasury under the Capital Purchase Program with a portion of the funds received from our sale of \$32.0 million in Series B Preferred Stock to the Treasury under the Small Business Lending Fund program. The remaining gross proceeds from the sale of the Series B Preferred Stock were contributed to the Bank to support loan growth.

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividends on our common stock and dividend payments on the Series B Preferred Stock. The dividend rate on the Series B Preferred Stock at March 31, 2012 was 5% per annum. For future quarters through the ninth calendar quarter, the dividend rate may be adjusted to between 1% per annum and 5% per annum to reflect changes to the Bank's level of "Qualified Small Business Lending" or "QBSL". If the level of the Bank's qualified small business loans declines so that the percentage increase in QBSL as compared to the baseline level of QBSL is less than 10%, then the dividend rate payable on the Series B Preferred Stock would increase. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between 1% and 7% based upon the increase in QBSL as of the ninth calendar quarter as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to 9% per annum.

Although no dividends have been paid by the Bank to the Company in the current year, as of March 31, 2012, the Bank had the ability to pay dividends to the Company of approximately \$14.5 million without prior approval from its primary regulator. The Company received no dividends from the Bank during the first three months of 2011. At March 31, 2012, the Company had approximately \$26.4 million in cash available for general corporate purposes, including injecting capital into the Bank. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock and other securities to provide funds as needed for operations and future growth of the Company.

Capital

The Company and the Bank are required to maintain certain minimum capital levels. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. At March 31, 2012, the Company and the Bank were in compliance with statutory minimum capital requirements and were classified as "well capitalized." Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 4.0%, and a Tier 1 leverage ratio (Tier 1 to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of March 31, 2012, the Company's Tier 1 leverage ratio was 10.29%, Tier 1 capital to risk-weighted assets was 16.44% and total capital to risk-weighted assets was 17.30%. The Bank had a Tier 1 leverage capital ratio of 8.36% at March 31, 2012. The Bank's three acquisitions in the second half of 2011 reduced capital levels; however, the Company and the Bank continue to be classified as "well capitalized."

Asset Quality

Credit Risk Management

We manage credit risk primarily by observing written, board approved policies that govern all credit underwriting and approval activities. Our Chief Credit Officer (“CCO”) is responsible for credit underwriting and loan operations for the Bank. The role of the CCO includes on-going review and development of lending policies, commercial credit analysis, centralized consumer underwriting, loan operations documentation and funding, and overall credit risk management procedures. The current risk management process requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by the loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. We believe the conservative nature of our underwriting practices has resulted in strong credit quality in our loan portfolio. Completed loan applications, credit bureau reports, financial statements, and a committee approval process remain a part of credit decisions. Documentation of the loan decision process is required on each credit application, whether approved or denied, to ensure thorough and consistent procedures. Additionally, we have historically recognized and disclosed significant problem loans quickly and taken prompt action to address material weaknesses in those credits.

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Additionally, credit concentrations are monitored and reported quarterly whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At March 31, 2012, one industry segment concentration, the oil and gas industry, aggregated more than 10% of our loan portfolio. Our exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately \$118.1 million, or 15.8% of total loans. Additionally, we monitor our exposure to loans secured by commercial real estate. At March 31, 2012, loans secured by commercial real estate, including commercial construction loans, totaled approximately \$327.9 million. Of the loans secured by commercial real estate, \$4.0 million or 1.2% are nonaccrual loans. Additional information regarding credit quality by loan classification is provided in Note 4 – Credit Quality of Loans and Allowance for Loan Losses and Note 7 – Fair Value Measurement in the notes to the interim consolidated financial statements.

Nonperforming Assets and Allowance for Loan Loss

Table 4 summarizes the Company's nonperforming assets for the quarters ending March 31, 2012 and 2011, and December 31, 2011.

Table 4
Nonperforming Assets and Loans Past Due 90 Days or More and Still Accruing
(in thousands)

	March 31, 2012	December 31, 2011	March 31, 2011		
Nonaccrual loans	\$7,655	\$6,229	\$15,570		
Loans past due 90 days and over and still accruing	418	231	304		
Total nonperforming loans	8,073	6,460	15,874		
Other real estate	7,120	7,369	1,528		
Other foreclosed assets	321	326	26		
Total nonperforming assets	\$15,514	\$14,155	\$17,428		
Troubled debt restructurings	\$421	\$456	\$1,337		
Nonperforming assets to total assets	1.10	% 1.01	% 1.70	%	%
Nonperforming assets to total loans + ORE + other foreclosed assets	2.05	% 1.88	% 3.03	%	%
ALL to nonperforming loans	87.67	% 112.63	% 42.53	%	%
ALL to total loans	0.95	% 0.97	% 1.18	%	%
YTD charge-offs	\$939	\$5,772	\$3,747		
YTD recoveries	66	310	86		
YTD net charge-offs	\$873	\$5,462	\$3,661		
Annualized net charge-offs to total loans	0.47	% 0.73	% 2.59	%	%

Nonperforming assets totaled \$15.5 million at March 31, 2012 compared to \$14.2 million at December 31, 2011 and \$17.4 million at March 31, 2011. The \$1.3 million increase from year end 2011 resulted from several smaller commercial credits placed on nonaccrual status during the first quarter of 2012. The \$7.8 million reduction in non-performing loans from March 31, 2011 to March 31, 2012 resulted primarily from the transfer of a \$4.9 million commercial credit into ORE in the second quarter of 2011. The ORE property is a condominium complex that is currently producing positive cash flow from net rental income on a monthly basis.

Allowance coverage for nonperforming loans decreased to 87.67% at March 31, 2012, compared to 112.63% at December 31, 2011 and increased compared to 42.53% at March 31, 2011. The ALL/total loans ratio decreased to 0.95% for the first quarter of 2012, compared to 0.97% at December 31, 2011 and 1.18% at March 31, 2011. The decrease in the ALL/total loans ratio from March 2011 resulted primarily from the \$127.9 million in loans added through the three acquisitions completed in the second half of 2011. The ratio of annualized net charge-offs to total loans was 0.47% for the quarter ended March 31, 2012 compared to 0.73% for year-end 2011 and 2.59% for the quarter ended March 31, 2011.

Loans past due 90 days or more and still accruing totaled \$418,000 at March 31, 2012 compared to \$231,000 at December 31, 2011 and \$304,000 at March 31, 2011. Loans classified as troubled debt restructurings totaled \$421,000 at March 31, 2012. Classified assets, including ORE, decreased \$2.4 million, or 9.0% during the first quarter of 2012, from \$26.7 million at December 31, 2011 to \$24.3 million at March 31, 2012. The decrease in classified assets resulted primarily from payments received on various non-accrual loans and a charge-off on a commercial real estate loan relationship. Additional information regarding impaired loans is included in Note 4 – Credit Quality of Loans and Allowance for Loan Losses and Note 7 – Fair Value Measurement in the notes to the interim consolidated financial statements.

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Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The ALL is comprised of specific reserves assigned to each impaired loan for which a probable loss has been identified as well as general reserves to maintain the allowance at an acceptable level for other loans in the portfolio where historical loss experience is available that indicates certain probable losses may exist. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off-balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which we determine the appropriate level of the ALL, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. We believe the \$7.1 million in the ALL as of March 31, 2012 is sufficient to cover probable losses in the loan portfolio.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto, presented herein, have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are financial. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes from the information regarding market risk disclosed under the heading "Funding Sources - Interest Rate Sensitivity" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it submits under the Exchange

Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

During the first quarter of 2012, there was no change in the Company's internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II – Other Information

Item 1. Legal Proceedings.

A Notice of Charge of Discrimination was filed against the Company in April 2011 with the U.S. Equal Employment Opportunity Commission by Karen L. Hail, a former Director and officer of the Company. Ms. Hail's claim alleges gender discrimination and retaliation. In May 2011, Ms. Hail also filed an action in U.S. District Court for the Western District of Louisiana ("the Court") against the Company and the Bank for discrimination and retaliation in violation of the Family Medical Leave Act and Title VII of the Civil Rights Act seeking unspecified monetary damages. The Company believes Ms. Hail's claims are without merit and will strongly defend against the claims.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2011.

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

The Company did not repurchase any equity securities during the quarter ended March 31, 2012.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Document Description
<u>31.1</u>	Certification pursuant to Exchange Act Rules 13(a) – 14(a) *
<u>31.2</u>	Certification pursuant to Exchange Act Rules 13(a) – 14(a) *
<u>32.1</u>	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **
<u>32.2</u>	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **

101 The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, formatted in Extensible Business Reporting Language ("XBRL"): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.***

* Filed herewith.

**Furnished herewith.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be "filed" or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MidSouth Bancorp, Inc.
(Registrant)

Date: May 10, 2012

/s/ C. R. Cloutier
C. R. Cloutier, President /CEO
(Principal Executive Officer)

/s/ James R. McLemore
James R. McLemore, CFO
(Principal Financial Officer)

/s/ Teri S. Stelly
Teri S. Stelly, Controller
(Principal Accounting Officer)