MID-STATE BANCSHARES
Form 10-Q
August 05, 2005

United States
Securities and Exchange Commission

Washington, D.C. 20429

FORM 10-Q

ý **Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the quarterly period ended June 30, 2005.

o **Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from N/A to N/A.

Commission File Number 000-23925

MID-STATE BANCSHARES

(Exact name of registrant as specified in its charter)

California (State or Other Jurisdiction of Incorporation or Organization)	**77-0442667** (I.R.S. Employer Identification No.)
1026 Grand Ave. Arroyo Grande, CA (Address of Principal Executive Offices)	**93420-0580** (Zip Code)

Registrant s Telephone Number: **(805) 473-7700**

Check whether the Company (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ý No o

Number of shares of common stock of the Company outstanding as of July 29, 2005: **22,738,772 shares.**

Mid-State Bancshares

June 30, 2005

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Mid-State Bancshares

Consolidated Statements of Financial Position

(Unaudited - figures in 000 s)

		June 30, 2005		Dec. 31, 2004		June 30, 2004
ASSETS						
Cash and Due From Banks	$	116,891	$	112,669	$	128,141
Fed Funds Sold		26,400		6,000		23,000
Securities Available For Sale		580,062		644,817		674,431
Loans Held for Sale		10,871		12,988		12,789
Loans, net of unearned income		1,490,366		1,421,894		1,316,135
Allowance for Loan Losses		(13,403)		(13,799)		(13,895)
Net Loans		1,476,963		1,408,095		1,302,240
Premises and Equipment, Net		24,055		24,946		25,335
Accrued Interest Receivable		12,136		11,918		11,678
Goodwill		47,840		47,840		47,840
Core Deposit Intangibles, net		7,045		7,732		8,419
Other Assets		48,833		19,082		18,142
Total Assets	$	2,351,096	$	2,296,087	$	2,252,015
LIABILITIES AND SHAREHOLDERS EQUITY						
Non Interest Bearing Demand	$	561,435	$	517,139	$	498,754
NOW Accounts, Money Market and Savings Deposits		1,049,143		1,083,139		1,054,520
Time Deposits Under $100		229,784		227,972		236,410
Time Deposits $100 or more		185,366		166,295		164,761
Total Deposits		2,025,728		1,994,545		1,954,445
Other Borrowings		25,331		6,582		4,964
Allowance for Losses Unfunded Commitments		1,759		1,783		1,570
Accrued Interest Payable and Other Liabilities		23,623		18,550		19,074
Total Liabilities		2,076,441		2,021,460		1,980,053
Commitments and Contingencies						
Shareholders Equity:						
Common Stock and Surplus (Shares outstanding of 22,810, 23,099 and 23,454, respectively)		51,149		61,439		72,476
Retained Earnings		218,380		206,328		195,215
Accumulated Other Comprehensive Income net of taxes of $3,417, $4,573 and $2,847 respectively		5,126		6,860		4,271
Total Equity		274,655		274,627		271,962
Total Liabilities and Equity	$	2,351,096	$	2,296,087	$	2,252,015

The accompanying notes are an integral part of these consolidated statements.

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Mid-State Bancshares

Consolidated Statements of Income

(Unaudited - figures in 000 s except earnings per share data)

	Three Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2005	Six Month Period Ended June 30, 2004
Interest Income:				
Interest and fees on loans	$ 25,812	$ 20,519	$ 49,753	$ 40,237
Interest on investment securities -				
U.S. Treasury securities	194	226	305	642
U.S. Government agencies and corporations	1,434	2,169	3,007	4,500
Obligations of states and political sub-divisions and other securities	3,995	3,635	7,725	7,321
Interest on fed funds sold	219	71	346	157
Total Interest Income	31,654	26,620	61,136	52,857
Interest Expense:				
Interest on NOW, money market and savings	1,206	609	1,930	1,201
Interest on time deposits less than $100	1,251	847	2,274	1,746
Interest on time deposits of $100 or more	1,002	498	1,783	1,002
Interest other	235	36	420	117
Total Interest Expense	3,694	1,990	6,407	4,066
Net Interest Income before provision	27,960	24,630	54,729	48,791
Provision (Benefit) for loan losses		(2,700)		(2,700)
Net Interest Income after provision	27,960	27,330	54,729	51,491
Other Operating Income:				
Service charges and fees	2,375	2,519	4,720	5,072
Commissions, fees and other service charges	2,090	3,451	4,259	6,601
Gain on sale of securities	80	9	88	382
Gain on sale of loans held for sale	139	229	238	374
Other non-interest income	694	1,702	1,468	2,481
Total Other Operating Income	5,378	7,910	10,773	14,910
Other Operating Expense:				
Salaries and employee benefits	10,668	11,182	21,656	21,899
Occupancy and furniture	3,089	3,096	6,041	6,208
Other operating expenses	5,454	6,599	9,849	12,464
Total Other Operating Expense	19,211	20,877	37,546	40,571
Income Before Taxes	14,127	14,363	27,956	25,830
Provision for income taxes	4,615	4,990	9,354	8,792
Net Income	$ 9,512	$ 9,373	$ 18,602	$ 17,038
Earnings per share:				
basic	$ 0.42	$ 0.40	$ 0.81	$ 0.72
diluted	$ 0.41	$ 0.39	$ 0.79	$ 0.71
Dividends per share	$ 0.16	$ 0.14	$ 0.32	$ 0.28
Average shares used in earnings per share calculations:				
basic	22,884	23,550	22,951	23,560
diluted	23,381	23,962	23,468	24,003

The accompanying notes are an integral part of these consolidated statements.

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Mid-State Bancshares

Consolidated Statements of Comprehensive Income

(Unaudited - figures in 000 s)

	Three Month Period Ended June 30, 2005	Three Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2005	Six Month Period Ended June 30, 2004
Net Income	$ 9,512	$ 9,373	$ 18,602	$ 17,038
Other Comprehensive Income Before Taxes:				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during period	5,878	(15,329)	(2,802)	(12,976)
Reclassification adjustment for (gains) included in net income	(80)	(9)	(88)	(382)
Other comprehensive income (loss), before tax	5,798	(15,338)	(2,890)	(13,358)
Income tax expense (credit) related to items in comprehensive income	2,319	(6,135)	(1,156)	(5,352)
Other Comprehensive Income (Loss), Net of Taxes	3,479	(9,203)	(1,734)	(8,006)
Comprehensive Income	$ 12,991	$ 170	$ 16,868	$ 9,032

The accompanying notes are an integral part of these consolidated statements.

Mid-State Bancshares

Consolidated Statements of Changes in Capital Accounts

(Unaudited - figures in 000 s except share amounts)

	Number of Shares		Capital Stock		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total
BALANCE, December 31, 2004	23,099,159	$	61,439	$	206,328	$	6,860	$	274,627
Cash dividend					(7,321)				(7,321)
Exercise of stock options	220,340		3,226						3,226
Tax Benefit from exercise of options					771				771
Net income					18,602				18,602
Change in net unrealized gain on available for sale securities, net of taxes of ($1,156)							(1,734)		(1,734)
Stock repurchased	(509,557)		(13,516)						(13,516)
BALANCE, June 30, 2005	**22,809,942**	**$**	**51,149**	**$**	**218,380**	**$**	**5,126**	**$**	**274,655**
BALANCE, December 31, 2003	23,567,478	$	75,506	$	184,771	$	12,277	$	272,554
Cash dividend					(6,594)				(6,594)
Exercise of stock options	44,574		532						532
Net income					17,038				17,038
Change in net unrealized gain on available for sale securities, net of taxes of ($5,352)							(8,006)		(8,006)
Stock repurchased	(158,212)		(3,562)						(3,562)
BALANCE, June 30, 2004	23,453,840	$	72,476	$	195,215	$	4,271	$	271,962

The accompanying notes are an integral part of these consolidated statements.

Mid-State Bancshares

Consolidated Statements of Cash Flows

(Unaudited - figures in 000 s)

	Six Month Period Ended June 30, 2005	2004
OPERATING ACTIVITIES		
Net Income	$ 18,602	$ 17,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses		(2,700)
Depreciation and amortization	2,758	3,034
Net amortization of prem./discounts-investments	1,859	2,763
Gain on sale of loans held for sale	(238)	(374)
Gain on sale of other real estate owned		(1,078)
Gain on sale of securities, net	(88)	(382)
Net decrease in loans held for sale	2,356	995
Change in deferred loan fees	(202)	(309)
Changes in assets and liabilities:		
Accrued interest receivable	(218)	496
Core deposit intangible	687	687
Other assets, net	1,403	(1,739)
Other liabilities	5,050	4,424
Net cash provided by operating activities	31,969	22,855
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	116,100	97,620
Purchases of investments	(86,007)	(13,112)
Increase in loans	(68,666)	(160,362)
Proceeds from sale of other real estate owned		4,506
Purchases of premises and equipment, net	(1,866)	(1,356)
Net cash used in investing activities	(40,439)	(72,704)
FINANCING ACTIVITIES		
Increase in deposits	31,183	42,014
Increase (decrease) in other borrowings	18,749	(2,663)
Exercise of stock options and related tax benefit	3,997	532
Cash dividends paid	(7,321)	(6,594)
Repurchase of company stock	(13,516)	(3,562)
Net cash provided by financing activities	33,092	29,727
Increase (decrease) in cash and cash equivalents	24,622	(20,122)
Cash and cash equivalents, beginning of period	118,669	171,263
Cash and cash equivalents, end of period	$ 143,291	$ 151,141
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 6,194	$ 4,291
Cash paid during the period for taxes on income	9,257	4,806
Supplemental disclosure of non-cash investing activities:		
Transfer of security investment for other assets	$ 30,000	

The accompanying notes are an integral part of these consolidated statements.

Mid-State Bancshares

Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

NOTE A - BASIS OF PRESENTATION AND MANAGEMENT REPRESENTATION

The accompanying consolidated financial statements include the accounts of Mid-State Bancshares and its wholly owned subsidiary Mid-State Bank & Trust and the Bank s subsidiaries, MSB Properties and Mid-Coast Land Company (collectively the Company, Bank or Mid-State). All significant inter-company transactions have been eliminated in consolidation. These consolidated financial statements should be read in conjunction with the Form 10-K Annual Report for the year ended December 31, 2004 of Mid-State Bancshares. A summary of the Company s significant accounting policies is set forth in the Notes to Consolidated Financial Statements contained therein.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a basis consistent with the accounting policies reflected in the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2004. They do not, however, include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments including normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

NOTE B - EARNINGS PER SHARE

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute Earnings Per Share (EPS). Figures are in thousands, except earnings per share data.

	Three Month Period Ended June 30, 2005			Three Month Period Ended June 30, 2004		
	Net Income	**Shares**	**EPS**	**Net Income**	**Shares**	**EPS**
Net Income as reported	$ 9,512			$ 9,373		
Basic Earnings Per Share:						
Income available to Common Shareholders	$ 9,512	22,884	$ 0.42	$ 9,373	23,550	$ 0.40
Effect of dilutive securities:						
Stock Options		497			412	
Diluted Earnings Per Share:						
Income available to Common Shareholders	$ 9,512	23,381	$ 0.41	$ 9,373	23,962	$ 0.39

	Six Month Period Ended June 30, 2005			Six Month Period Ended June 30, 2004		
	Net Income	**Shares**	**EPS**	**Net Income**	**Shares**	**EPS**
Net Income as reported	$ 18,602			$ 17,038		
Basic Earnings Per Share:						
Income available to Common Shareholders	$ 18,602	22,951	$ 0.81	$ 17,038	23,560	$ 0.72
Effect of dilutive securities:						
Stock Options		517			443	
Diluted Earnings Per Share:						
Income available to Common Shareholders	$ 18,602	23,468	$ 0.79	$ 17,038	24,003	$ 0.71

NOTE C RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. The SOP was effective for loans acquired in fiscal years beginning after December 15, 2004, with early adoption encouraged. The SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an Investor s initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The adoption of SOP 03-3 did not have a material impact on the Company s results of operations and financial position.

In June 2004, the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) issued guidance on its Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. The guidance made recommendations regarding unrealized losses on available-for-sale debt and equity securities accounted for under Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, and No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. The guidance for evaluating whether an investment is other-than-temporarily impaired was to be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosures were to be effective in annual financial statements for fiscal years ending after December 15, 2003, for investments accounted for under Statements 115 and 124. On September 30, 2004, the FASB Board directed the issuance of FASB Staff Position (FSP) EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1. The proposed FSP would provide implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of issue Issue 03-1. The FASB asked constituents to comment on whether the application guidance with respect to minor impairments should also be applied to securities analyzed for impairment under paragraphs 10-15 of Issue 03-1. Based on comment letters received, the FASB decided to delay the effective date for the measurement and recognition guidance contained in paragraphs 10 20 of Issue 03-1 as it further considers whether application guidance is necessary for all securities analyzed for impairment. The delay of the effective date for paragraphs 10 20 of Issue 03-1 will be superseded concurrent with the final issuance of FSP EITF Issue 03-1-a. The adoption of EITF Issue No. 03-1 is not expected to have a material impact on the Company s results of operations and financial position.

The FASB issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation in December 2004. The revised Statement is SFAS No. 123R (revised 2004), Share-Based Payment and it will supercede APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. It is to be effective for the Company as of the beginning of the first annual reporting period that begins after June 15, 2005. The Statement requires that the Company measures the cost of employee services received in exchange for an award of equity instruments (share based payment awards) based on the grant date fair value of the award and the estimated number of awards that are expected to vest. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award usually the vesting period. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. The Company currently applies APB Opinion No. 25, in accounting for its Plan. Accordingly, no compensation expense has been recognized for grants under the Plan. Pro forma disclosures of net income and earnings per share are however disclosed in Note 15 of the Company s Annual Report on Form 10K. The Company expects to adopt the revised Statement for the first quarter of 2006 and expects it will have a material effect on its Consolidated Statements of Income, Comprehensive Income and Changes in Capital Accounts.

FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* on June 1, 2005, a replacement of APB No. 20 and SFAS No. 3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 improves financial reporting because its requirements enhance the consistency of financial information between periods. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company expects to adopt the revised Statement for the first quarter of 2006 and expects it will not have a material effect on its Consolidated Statements of Income, Comprehensive Income and Changes in Capital Accounts.

NOTE D CORE DEPOSIT INTANGIBLES, NET

The following is a summary of the Company s core deposit intangibles. Figures are in thousands (unaudited).

	June 30, 2005			June 30, 2004		
	Gross Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Core Deposit Intangible	$ 11,596	$ (4,551)	$ 7,045	$ 11,596	$ (3,177)	$ 8,419

	Dec. 31, 2004		
	Gross Amount	**Accumulated Amortization**	**Net Carrying Amount**
Core Deposit Intangible	$ 11,596	$ (3,864)	$ 7,732

Aggregate Amortization Expense of Core Deposit Intangibles ($ in 000 s):

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2005	2004	2005	2004
Amortization of Core Deposit Intangible	$ 344	$ 344	$ 687	$ 687

The amortization expense for core deposit intangibles is included within other operating expenses on the consolidated statements of income. The projected amortization expense for core deposit intangibles, assuming no further acquisitions or dispositions or changes in amortization rates, is approximately $1.4 million per year over the next five years.

NOTE E STOCK OPTIONS

On May 17, 2005, shareholders of the Company approved a new equity based compensation plan, the Mid-State Bancshares 2005 Equity Based Compensation Plan (the 2005 Plan) which reserves an additional 1,000,000 common shares for issuance in accordance with the terms of the Plan. The 2005 Plan provides for the grant of stock options, stock appreciation rights, restricted shares, restricted share units, performance based cash only awards, or any combination thereof. It replaces the 1996 Stock Option Plan which is described more fully in Footnote 15 of the Company s December 31, 2004 Annual Report on Form 10-K. Shares available for issuance under the 1996 Plan are now included in the 2005 Plan, resulting in 1,049,172 available to be issued (4.47% of current and issued outstanding common stock) as of June 30, 2005.

The Company accounts for stock options using the intrinsic value method under the provisions of Accounting Principles Board (APB) Opinion No. 25 and provides proforma net income and proforma earnings per share disclosures for employee stock option grants as if the fair-value-based method, defined in SFAS No. 123, Accounting for Stock-Based Compensation, had been applied. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company s net income would have been reduced to the pro forma amounts indicated below for the three month and six month periods ended June 30. The assumptions utilized in calculating the stock-based compensation expense determined under the intrinsic value based method were generally the same at June 30, 2005 and 2004 as they were at year-end.

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
(dollars in 000 s except per share amounts)	**2004**	**2004**	**2004**	**2004**
Net income, as reported	$ 9,512	$ 9,373	$ 18,602	$ 17,038
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related taxes	(584)	(470)	(1,163)	(924)
Proforma net income	$ 8,928	$ 8,903	$ 17,439	$ 16,114
Basic income per share, as reported	$ 0.42	$ 0.40	$ 0.81	$ 0.72
Proforma basic income per share	$ 0.39	$ 0.38	$ 0.76	$ 0.68
Diluted income per share, as reported	$ 0.41	$ 0.39	$ 0.79	$ 0.71
Proforma diluted income per share	$ 0.38	$ 0.37	$ 0.74	$ 0.67

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NOTE F - SECURITIES

The following table shows those investments with gross unrealized losses and their market value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2005.

	Less than 12 months		12 months or more		Total	
(amounts in 000 s)	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
U.S. Treasury securities	$ 9,869	$ (122)	$ 4,021	$ (35)	$ 13,890	$ (157)
Securities of U.S. government agencies and corporations	31,384	(189)	90,177	(1,137)	121,561	(1,326)
Mortgage backed securities	604	(11)			604	(11)
Obligations of states and political subdivisions	22,740	(95)	11,523	(313)	34,263	(408)
Other investments	1,988	(24)			1,988	(24)
TOTAL	$ 66,585	$ (441)	$ 105,721	$ (1,485)	$ 172,306	$ (1,926)

All of the unrealized losses identified in the table above are primarily attributable to changes in general interest rate levels and are not considered to be other than a temporary impairment. The unrealized losses are not the result of any deteriorating financial conditions or near term prospects of the underlying issuers and Management believes that it has the intent and ability to retain these investment securities to allow for the eventual recovery in market value.

NOTE G OTHER ASSETS

During the second quarter of 2005, the Company made an investment in the amount of $30.0 million in a security of a U.S. government agency. That security was exchanged for an interest bearing investment in the Senior Housing Crime Prevention Foundation Investment Corporation (SHCPF-I) with the U.S. government agency held in safekeeping reflecting ownership by SHCPF-I and the pledge of that Security in favor of Mid-State Bank & Trust. The investment provides funding for the Senior Housing Crime Prevention Foundation in its efforts to prevent elder abuse in nursing homes throughout the Company s service area. This investment is included under Other Assets within the Company s Consolidated Statements of Financial Position.

NOTE H REPORTABLE BUSINESS SEGMENTS

Below is a summary statement of income for the three months and six months ended June 30, 2005 and 2004 for each reportable business segment.

Three Months Ended June 30,

(unaudited dollars in 000 s)	Community Banking 2005	Community Banking 2004	Mid Coast Land Company 2005	Mid Coast Land Company 2004	Trust Services 2005	Trust Services 2004	Mid-State Bancshares 2005	Mid-State Bancshares 2004
Interest Income	$ 31,654	$ 26,620	$	$	$	$	$ 31,654	$ 26,620
Interest Expense	3,694	1,990					3,694	1,990
Net Interest Income	27,960	24,630					27,960	24,630
Provision for Loan Losses		(2,700)						(2,700)
Non Interest Income	4,772	7,514	336	172	270	224	5,378	7,910
Non Interest Expense	18,975	20,671	3	3	233	203	19,211	20,877
Pre-Tax Income	$ 13,757	$ 14,173	$ 333	$ 169	$ 37	$ 21	$ 14,127	$ 14,363

Six Months Ended June 30,

(unaudited dollars in 000 s)	Community Banking 2005	2004	Mid Coast Land Company 2005	2004	Trust Services 2005	2004	Mid-State Bancshares 2005	2004
Interest Income	$ 61,136	$ 52,857	$	$	$	$	$ 61,136	$ 52,857
Interest Expense	6,407	4,066					6,407	4,066
Net Interest Income	54,729	48,791					54,729	48,791
Provision for Loan Losses		(2,700)						(2,700)
Non Interest Income	9,854	14,092	350	379	569	439	10,773	14,910
Non Interest Expense	37,092	40,144	6	21	448	406	37,546	40,571
Pre-Tax Income	$ 27,491	$ 25,439	$ 344	$ 358	$ 121	$ 33	$ 27,956	$ 25,830

NOTE I GUARANTEES

The Company has guarantees outstanding under performance standby letter of credit accommodations made to its customers in the ordinary course of business totaling $44.4 million at June 30, 2005, up from $29.2 million one year earlier.

Letters of credit are issued in connection with agreements made by customers to counterparties. Terms of these letters of credit are generally for one year and may or may not be collateralized by receivables or other assets. If the customer fails to comply with the agreement, the counterparty may enforce the letter of credit as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Company. The notional amount of the letter of credit accommodations represents the maximum amount of future cash payments.

Many of the commitments are expected to expire without being drawn upon. Accordingly, the total outstanding commitment amount does not necessarily represent future cash requirements. The Company does not anticipate any significant losses as a result of these transactions. Provision has been made for losses which may be sustained in the fulfillment of, or from an inability to fulfill, any commitments. The provision at June 30, 2005 was $1.8 million, compared to $1.6 million one year earlier, and is reflected on the Consolidated Statements of Financial Position as Allowance for Losses Unfunded Commitments.

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

The following is management s discussion and analysis of the major factors that influenced our financial performance for the three months and six months ended June 30, 2005. This analysis should be read in conjunction with our 2004 Annual Report as filed on Form 10-K and with the unaudited financial statements and notes as set forth in this report. *Unless the context requires otherwise, the terms Company, us, we, and our refers to Mid-State Bancshares on a consolidated basis.*

Certain statements contained in this Quarterly Report of Form 10-Q (Report), including, without limitation, statements containing the words estimate, believes, anticipates, intends, may, expects, could, and words of similar import, constitute forward-looking statements wit meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements relate to, among other things, our current expectations regarding future operating results, net interest margin, strength of the local economy, the recovery of unrealized losses in the investment portfolio and allowance for credit losses. Such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in those areas in which we operate, demographic changes, competition, natural disasters, growth in loans and deposits, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of our business, economic, political and global changes arising from the war on terrorism, the conflict with Iraq and its aftermath, and other factors referenced in our 2004 Annual Report as filed on form 10-K, including in Item 1. Business - Factors That May Affect Future Results of Operations. When relying on forward-looking statements to make decisions with respect to our Company, investors and others are cautioned to consider these and other risks and uncertainties. We disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

This discussion should be read in conjunction with our financial statements, including the notes thereto, appearing elsewhere in this report.

Critical Accounting Policies and Estimates This Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as, disclosures included elsewhere in this Form 10-Q, are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require Management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies. A summary of the more significant accounting policies of the Company can be found in Footnote One to the financial statements which is included in Item 8 of the Company s Annual Report on Form 10-K and in the Management s Discussion and Analysis included in Item 7 of that same report entitled Critical Accounting Policies and Estimates.

Internal Controls Over Financial Reporting There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We continue to enhance our internal control over financial reporting, primarily by evaluating and enhancing our processes and control documentation, in connection with our ongoing efforts to meet the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We discuss with and disclose these matters to the Audit Committee of our Board of Directors and our external, independent auditors.

Selected Financial Data - Summary. The following table provides certain selected consolidated financial data as of and for the three months ending June 30, 2005 and 2004 (unaudited in 000 s, except per share data).

(In 000 s, except per share data)	Quarter Ended June 30, 2005	Quarter Ended June 30, 2004	At or for the 6 months ended June 30, 2005	At or for the 6 months ended June 30, 2004
Interest Income	$ 31,654	$ 26,620	$ 61,136	$ 52,857
Interest Expense	3,694	1,990	6,407	4,066
Net Interest Income	27,960	24,630	54,729	48,791
(Benefit)/Provision for Loan Losses		(2,700)		(2,700)
Net Interest Income after provision for loan losses	27,960	27,330	54,729	51,491
Non-interest income	5,378	7,910	10,773	14,910
Non-interest expense	19,211	20,877	37,546	40,571
Income before income taxes	14,127	14,363	27,956	25,830
Provision for income taxes	4,615	4,990	9,354	8,792
Net Income	$ 9,512	$ 9,373	$ 18,602	$ 17,083
Per share:				
Net Income - basic	$ 0.42	$ 0.40	$ 0.81	$ 0.72
Net Income - diluted	$ 0.41	$ 0.39	$ 0.79	$ 0.71
Weighted average shares used in Basic E.P.S. calculation	22,884	23,550	22,951	23,560
Weighted average shares used in Diluted E.P.S. calculation	23,381	23,962	23,468	24,003
Cash dividends	$ 0.16	$ 0.14	$ 0.32	$ 0.28
Book value at period-end			$ 12.04	$ 11.60
Tangible book value at period end			$ 9.63	$ 9.20
Ending Shares			22,810	23,454
Financial Ratios				
Return on assets (annualized)	1.63%	1.68%	1.61%	1.54%
Return on tangible assets (annualized)	1.67%	1.72%	1.65%	1.58%
Return on equity (annualized)	13.87%	13.73%	13.60%	12.40%
Return on tangible equity (annualized)	17.34%	17.28%	17.00%	15.59%
Net interest margin	5.37%	4.90%	5.30%	4.89%
Net interest margin (taxable equivalent yield)	5.79%	5.31%	5.72%	5.30%
Net loan (recoveries) losses to avg. loans	0.06%	0.00%	0.06%	(0.09)%
Efficiency ratio	57.6%	64.2%	57.3%	63.7%
Period Averages				
Total Assets	$ 2,339,887	$ 2,242,379	$ 2,323,193	$ 2,220,872
Total Tangible Assets	2,284,853	2,185,971	2,267,989	2,164,292
Total Loans (includes loans held for sale)				