

MID-STATE BANCSHARES  
Form 10-Q  
November 08, 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 September 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**

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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    No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes    No

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

Yes    No

Number of shares of common stock of the Company outstanding as of October 31, 2005: 22,562,845 shares.

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**Mid-State Bancshares**

September 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)

|  | Sept. 30, 2005 |           | Dec. 31, 2004 |           | Sept. 30, 2004 |           |
|--|----------------|-----------|---------------|-----------|----------------|-----------|
| <b>ASSETS</b>  |                |           |               |           |                |           |
| Cash and Due From Banks  | \$             | 130,602   | \$            | 112,669   | \$             | 119,104   |
| Fed Funds Sold   |                | 32,100    |               | 6,000     |                |           |
| Securities Available For Sale  |                | 617,715   |               | 644,817   |                | 688,923   |
| Loans Held for Sale  |                | 10,391    |               | 12,988    |                | 10,001    |
| Loans, net of unearned income  |                | 1,497,704 |               | 1,421,894 |                | 1,394,478 |
| Allowance for Loan Losses  |                | (11,532)  |               | (13,799)  |                | (13,912)  |
| Net Loans  |                | 1,486,172 |               | 1,408,095 |                | 1,380,566 |
| Premises and Equipment, Net  |                | 24,635    |               | 24,946    |                | 25,213    |
| Accrued Interest Receivable  |                | 13,935    |               | 11,918    |                | 13,099    |
| Goodwill   |                | 47,840    |               | 47,840    |                | 47,840    |
| Core Deposit Intangibles, net  |                | 6,701     |               | 7,732     |                | 8,076     |
| Other Assets   |                | 52,282    |               | 19,082    |                | 16,721    |
| <b>Total Assets</b>  | \$             | 2,422,373 | \$            | 2,296,087 | \$             | 2,309,543 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                |           |               |           |                |           |
| Non Interest Bearing Demand  | \$             | 589,601   | \$            | 517,139   | \$             | 524,785   |
| NOW Accounts, Money Market and Savings Deposits  |                | 1,088,091 |               | 1,083,139 |                | 1,075,583 |
| Time Deposits Under \$100  |                | 232,062   |               | 227,972   |                | 231,147   |
| Time Deposits \$100 or more  |                | 196,208   |               | 166,295   |                | 168,052   |
| <b>Total Deposits</b>  |                | 2,105,962 |               | 1,994,545 |                | 1,999,567 |
| Other Borrowings   |                | 23,680    |               | 6,582     |                | 5,843     |
| Allowance for Losses - Unfunded Commitments  |                | 1,839     |               | 1,783     |                | 1,682     |
| Accrued Interest Payable and Other Liabilities   |                | 19,206    |               | 18,550    |                | 23,989    |
| <b>Total Liabilities</b>   |                | 2,150,687 |               | 2,021,460 |                | 2,031,081 |
| Commitments and Contingencies  |                |           |               |           |                |           |
| Shareholders' Equity:  |                |           |               |           |                |           |
| Common Stock and Surplus (Shares outstanding of 22,623, 23,099 and 23,323, respectively)         |                | 45,384    |               | 61,439    |                | 68,348    |
| Retained Earnings  |                | 224,349   |               | 206,328   |                | 200,626   |
| Accumulated Other Comprehensive Income net of taxes of \$1,302, \$4,573 and \$6,326 respectively |                | 1,953     |               | 6,860     |                | 9,488     |
| <b>Total Equity</b>  |                | 271,686   |               | 274,627   |                | 278,462   |
| <b>Total Liabilities and Equity</b>  | \$             | 2,422,373 | \$            | 2,296,087 | \$             | 2,309,543 |

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

## Mid-State Bancshares

## Consolidated Statements of Income

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

|   | Three Month Period<br>Ended Sept. 30, |                 | Nine Month Period<br>Ended Sept. 30, |                  |
|---|---------------------------------------|-----------------|--------------------------------------|------------------|
|   | 2005                                  | 2004            | 2005                                 | 2004             |
| <b>Interest Income:</b>   |                                       |                 |                                      |                  |
| Interest and fees on loans  | \$ 26,780                             | \$ 22,106       | \$ 76,533                            | \$ 62,343        |
| Interest on investment securities -                                       |                                       |                 |                                      |                  |
| U.S. Treasury securities  | 189                                   | 178             | 494                                  | 820              |
| U.S. Government agencies and corporations                                 | 1,562                                 | 2,095           | 4,569                                | 6,595            |
| Obligations of states and political sub-divisions<br>and other securities | 3,936                                 | 3,708           | 11,661                               | 11,029           |
| Interest on fed funds sold  | 456                                   | 149             | 802                                  | 306              |
| <b>Total Interest Income</b>  | <b>32,923</b>                         | <b>28,236</b>   | <b>94,059</b>                        | <b>81,093</b>    |
| <b>Interest Expense:</b>  |                                       |                 |                                      |                  |
| Interest on NOW, money market and savings                                 | 1,391                                 | 654             | 3,321                                | 1,855            |
| Interest on time deposits less than \$100                                 | 1,452                                 | 849             | 3,726                                | 2,595            |
| Interest on time deposits of \$100 or more                                | 1,247                                 | 546             | 3,030                                | 1,548            |
| Interest other  | 234                                   | 34              | 654                                  | 151              |
| <b>Total Interest Expense</b>   | <b>4,324</b>                          | <b>2,083</b>    | <b>10,731</b>                        | <b>6,149</b>     |
| <b>Net Interest Income before provision for loan<br/>losses</b>           | <b>28,599</b>                         | <b>26,153</b>   | <b>83,328</b>                        | <b>74,944</b>    |
| Provision (Benefit) for loan losses                                       |                                       |                 |                                      | (2,700)          |
| <b>Net Interest Income after provision for loan<br/>losses</b>            | <b>28,599</b>                         | <b>26,153</b>   | <b>83,328</b>                        | <b>77,644</b>    |
| <b>Other Operating Income:</b>  |                                       |                 |                                      |                  |
| Service charges and fees  | 2,374                                 | 2,574           | 7,094                                | 7,646            |
| Commissions, fees and other service charges                               | 2,238                                 | 3,545           | 6,497                                | 10,146           |
| Net gain on sale of securities  |                                       | 93              | 88                                   | 475              |
| Net gain on sale of loans held for sale                                   | 179                                   | 40              | 417                                  | 414              |
| Other non-interest income   | 480                                   | 998             | 1,948                                | 3,479            |
| <b>Total Other Operating Income</b>                                       | <b>5,271</b>                          | <b>7,250</b>    | <b>16,044</b>                        | <b>22,160</b>    |
| <b>Other Operating Expense:</b>   |                                       |                 |                                      |                  |
| Salaries and employee benefits  | 11,105                                | 10,579          | 32,761                               | 32,478           |
| Occupancy and furniture   | 3,105                                 | 3,153           | 9,146                                | 9,361            |
| Other operating expenses  | 5,263                                 | 6,533           | 15,112                               | 18,997           |
| <b>Total Other Operating Expense</b>                                      | <b>19,473</b>                         | <b>20,265</b>   | <b>57,019</b>                        | <b>60,836</b>    |
| <b>Income Before Taxes</b>  | <b>14,397</b>                         | <b>13,138</b>   | <b>42,353</b>                        | <b>38,968</b>    |
| Provision for income taxes  | 4,905                                 | 4,465           | 14,259                               | 13,257           |
| <b>Net Income</b>   | <b>\$ 9,492</b>                       | <b>\$ 8,673</b> | <b>\$ 28,094</b>                     | <b>\$ 25,711</b> |
| <b>Earnings per share:</b>  |                                       |                 |                                      |                  |
| basic   | \$ 0.42                               | \$ 0.37         | \$ 1.23                              | \$ 1.09          |
| diluted   | \$ 0.41                               | \$ 0.36         | \$ 1.20                              | \$ 1.07          |
| <b>Dividends per share</b>  | <b>\$ 0.16</b>                        | <b>\$ 0.14</b>  | <b>\$ 0.48</b>                       | <b>\$ 0.42</b>   |
| <b>Average shares used in earnings per share<br/>calculations:</b>        |                                       |                 |                                      |                  |
| basic   | 22,709                                | 23,369          | 22,869                               | 23,496           |
| diluted   | 23,231                                | 23,842          | 23,388                               | 23,949           |

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



## Mid-State Bancshares

## Consolidated Statements of Comprehensive Income

(Unaudited - figures in 000 s)

|  | Three Month Period<br>Ended Sept. 30, |           | Nine Month Period<br>Ended Sept. 30, |           |
|--|---------------------------------------|-----------|--------------------------------------|-----------|
|  | 2005                                  | 2004      | 2005                                 | 2004      |
| <b>Net Income</b>  | \$ 9,492                              | \$ 8,673  | \$ 28,094                            | \$ 25,711 |
| <b>Other Comprehensive Income Before Taxes:</b>                      |                                       |           |                                      |           |
| Unrealized (losses) gains on securities available for sale:          |                                       |           |                                      |           |
| Unrealized holding (losses) gains arising during period              | (5,288)                               | 8,788     | (8,090)                              | (4,188)   |
| Reclassification adjustment for (gains) included in net income       |                                       | (93)      | (88)                                 | (475)     |
| Other comprehensive (loss) income, before tax                        | (5,288)                               | 8,695     | (8,178)                              | (4,663)   |
| Income tax (credit) expense related to items in comprehensive income | (2,115)                               | 3,478     | (3,271)                              | (1,874)   |
| <b>Other Comprehensive (Loss) Income, Net of Taxes</b>               | (3,173)                               | 5,217     | (4,907)                              | (2,789)   |
| <b>Comprehensive Income</b>  | \$ 6,319                              | \$ 13,890 | \$ 23,187                            | \$ 22,922 |

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   |                   |                  | (10,941)          |   | (10,941)          |
| Exercise of stock options   | 246,880           | 3,660            |                   |   | 3,660             |
| Tax Benefit from exercise of options  |                   |                  | 868               |   | 868               |
| Net income  |                   |                  | 28,094            |   | 28,094            |
| Change in net unrealized gain on available for sale securities, net of taxes of (\$3,271) |                   |                  |                   | (4,907)                                       | (4,907)           |
| Stock repurchased   | (723,192)         | (19,715)         |                   |   | (19,715)          |
| <b>BALANCE, Sept. 30, 2005</b>  | <b>22,622,847</b> | <b>\$ 45,384</b> | <b>\$ 224,349</b> | <b>\$ 1,953</b>                               | <b>\$ 271,686</b> |
| BALANCE, December 31, 2003  | 23,567,478        | \$ 75,506        | \$ 184,771        | \$ 12,277                                     | \$ 272,554        |
| Cash dividend   |                   |                  | (9,856)           |   | (9,856)           |
| Exercise of stock options   | 129,008           | 1,659            |                   |   | 1,659             |
| Net income  |                   |                  | 25,711            |   | 25,711            |
| Change in net unrealized gain on available for sale securities, net of taxes of (\$1,874) |                   |                  |                   | (2,789)                                       | (2,789)           |
| Stock repurchased   | (373,819)         | (8,817)          |                   |   | (8,817)           |
| BALANCE, Sept. 30, 2004   | 23,322,667        | \$ 68,348        | \$ 200,626        | \$ 9,488                                      | \$ 278,462        |

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

**Mid-State Bancshares**

Consolidated Statements of Cash Flows

(Unaudited - figures in 000 s)

|   | <b>Nine Month Period<br/>Ended Sept. 30,</b> |             |
|---|--|-------------|
|   | <b>2005</b>                                  | <b>2004</b> |
| <b>OPERATING ACTIVITIES</b>   |  |             |
| Net Income  | \$ 28,094                                    | \$ 25,711   |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |             |
| Provision for credit losses   |  | (2,700)     |
| Depreciation and amortization   | 4,044  | 4,669       |
| Net amortization of prem./discounts-investments                                   | 2,799  | 3,987       |
| Gain on sale of loans held for sale   | (417)  | (414)       |
| Gain on sale of other real estate owned   |  | (1,084)     |
| Gain on sale of securities, net   | (88)   | (475)       |
| Net decrease in loans held for sale   | 3,016  | 3,823       |
| Change in deferred loan fees  | (340)  | (146)       |
| Changes in assets and liabilities:  |  |             |
| Accrued interest receivable   | (2,017)                                      | (925)       |
| Core deposit intangible   | 1,031  | 1,031       |
| Other assets, net   | 69   | (4,141)     |