

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**

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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

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.

Mid-State Bancshares

Consolidated Statements of Income

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

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2005	2004	2005	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.

Mid-State Bancshares

Consolidated Statements of Comprehensive Income

(Unaudited - figures in 000 s)

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2005	2004	2005	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 \$ 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

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	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:						