

MID-STATE BANCSHARES
Form 10-Q
November 14, 2001

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**United States
Securities and Exchange Commission**

Washington, D.C. 20429

FORM 10-Q

/x/ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2001.

// 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)

Issuer's Telephone Number: **(805) 473-7700**

Securities to be registered under Section 12(b) of the Act: **None**

Securities to be registered under Section 12(g) of the Act:

Common Stock, no par value

(Title of class)

Check whether the Bank (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 /x/ No //

As of November 12, 2001, the aggregate market value of the common stock held by non-affiliates of the Company was: \$359,114,960.

Number of shares of common stock of the Company outstanding as of November 12, 2001: 24,118,437 shares.

Mid-State Bancshares

September 30, 2001

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

Mid-State Bancshares

Consolidated Statements of Financial Position
(Interim Periods Unaudited figures in 000's)

| <u>September 30,</u> <u>2001</u> | <u>December 31,</u> <u>2000</u> | <u>September 30,</u> <u>2000</u> |
|-------------------------------------|------------------------------------|-------------------------------------|
| | | |

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| | September 30, 2001 | December 31, 2000 | September 30, 2000 |
|--|-----------------------|----------------------|-----------------------|
| ASSETS | | | |
| Cash and Due From Banks | \$ 95,742 | \$ 88,988 | \$ 78,590 |
| Fed Funds Sold | 72,000 | | |
| Investment Securities: | | | |
| Available For Sale | 441,492 | 381,822 | 378,330 |
| Held-to-Maturity (Market value of \$0, \$25,845 and \$27,748, respectively) | | 25,640 | 27,856 |
| Loans, net of unearned income | 1,176,486 | 919,967 | 884,621 |
| Allowance for Loan Losses | (20,535) | (13,280) | (13,093) |
| Net Loans | 1,155,951 | 906,687 | 871,528 |
| Premises and Equipment, Net | 26,047 | 28,003 | 27,888 |
| Accrued Interest Receivable | 12,797 | 11,753 | 11,863 |
| Investments in Real Estate, Net | 231 | 228 | 231 |
| Other Real Estate Owned, Net | | | 682 |
| Goodwill | 35,383 | 1,347 | 1,379 |
| Other Intangibles | 6,894 | 424 | 437 |
| Other Assets | 14,857 | 10,986 | 17,835 |
| Total Assets | \$ 1,861,394 | \$ 1,455,878 | \$ 1,416,619 |
| LIABILITIES AND EQUITY | | | |
| Non-Interest Bearing Demand | \$ 359,628 | \$ 275,624 | \$ 256,729 |
| NOW Accounts and Other Savings | 765,555 | 606,857 | 614,375 |
| Time Deposits Under \$100 | 287,333 | 228,311 | 227,376 |
| Time Deposits \$100 or more | 177,220 | 120,370 | 124,970 |
| Total Deposits | 1,589,736 | 1,231,162 | 1,223,450 |
| Other Borrowings | 14,238 | 30,240 | 9,042 |
| Accrued Interest Payable and Other Liabilities | 23,678 | 17,334 | 15,674 |
| Total Liabilities | 1,627,652 | 1,278,736 | 1,248,166 |
| Shareholders' Equity: | | | |
| Common Stock and Surplus (Shares Outstanding of 24,197, 22,019 and 22,012, respectively) | 87,346 | 51,772 | 51,734 |
| Retained Earnings | 137,184 | 124,163 | 118,996 |
| Accumulated Other Comprehensive Income (Loss), Net | 9,212 | 1,207 | (2,277) |
| Total Equity | 233,742 | 177,142 | 168,453 |
| Total Liabilities and Equity | \$ 1,861,394 | \$ 1,455,878 | \$ 1,416,619 |

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Consolidated Statements of Income
(Unaudited figures in 000's except earnings per share data)

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|--|---|-----------------|--|------------------|
| | 2001 | 2000 | 2001 | 2000 |
| Interest Income: | | | | |
| Interest and fees on loans | \$ 24,279 | \$ 22,189 | \$ 68,482 | \$ 62,973 |
| Interest on investment securities taxable | 3,331 | 4,040 | 9,798 | 13,028 |
| Interest on investment securities tax exempt | 1,572 | 1,410 | 4,826 | 4,160 |
| Interest on fed funds sold, other | 720 | 623 | 1,540 | 1,139 |
| Total Interest Income | 29,902 | 28,262 | 84,646 | 81,300 |
| Interest Expense: | | | | |
| Interest on NOW, money market and savings | 2,043 | 2,369 | 6,327 | 7,066 |
| Interest on time deposits less than \$100 | 2,734 | 2,999 | 8,807 | 8,529 |
| Interest on time deposits of \$100 or more | 1,579 | 1,627 | 5,191 | 4,251 |
| Interest on mortgages, other | 71 | 127 | 191 | 372 |
| Total Interest Expense | 6,427 | 7,122 | 20,516 | 20,218 |
| Net Interest Income before provision | 23,475 | 21,140 | 64,130 | 61,082 |
| Less: Provision for loan losses | 3,200 | 300 | 3,800 | 400 |
| Net Interest Income after provision | 20,275 | 20,840 | 60,330 | 60,682 |
| Other Operating Income: | | | | |
| Service charges and fees | 1,920 | 1,717 | 5,818 | 5,227 |
| Other non-interest income | 3,265 | 2,836 | 9,961 | 8,193 |
| Total Other Operating Income | 5,185 | 4,553 | 15,779 | 13,420 |
| Other Operating Expense: | | | | |
| Salaries and employee benefits | 8,588 | 8,321 | 25,022 | 24,183 |
| Occupancy and furniture | 2,187 | 2,145 | 6,607 | 6,347 |
| Merger related charges | 300 | | 300 | |
| Other operating expenses | 5,473 | 4,258 | 15,967 | 12,540 |
| Total Other Operating Expense | 16,548 | 14,724 | 47,896 | 43,070 |
| Income Before Taxes | 8,912 | 10,669 | 28,213 | 31,032 |
| Provision for income taxes | 3,317 | 3,672 | 9,294 | 10,831 |
| Net Income | \$ 5,595 | \$ 6,997 | \$ 18,919 | \$ 20,201 |
| Earnings per share basic | \$ 0.26 | \$ 0.32 | \$ 0.86 | \$ 0.90 |
| diluted | \$ 0.25 | \$ 0.31 | \$ 0.83 | \$ 0.89 |

Mid-State Bancshares
Consolidated Statements of Comprehensive Income
(Unaudited figures in 000's)

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|---|---|----------|--|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Net Income | \$ 5,595 | \$ 6,997 | \$ 18,919 | \$ 20,201 |
| Unrealized gains (losses) on securities available for sale: | | | | |
| Unrealized holding gains arising during period | 8,542 | 2,773 | 13,412 | 2,379 |
| Reclassification adjustment for (gains) losses included in net income | (6) | 1 | (69) | 5 |
| Other comprehensive income, before tax | 8,536 | 2,774 | 13,343 | 2,384 |
| Income tax provision related to items in comprehensive income | 3,415 | 1,109 | 5,338 | 954 |
| Other Comprehensive Income, Net of Taxes | 5,121 | 1,665 | 8,005 | 1,430 |
| Comprehensive Income | \$ 10,716 | \$ 8,662 | \$ 26,924 | \$ 21,631 |

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Mid-State Bancshares
Consolidated Statements of Cash Flows
(Unaudited figures in 000's)

| | Nine Month Period Ended September 30, | |
|---|--|-----------|
| | 2001 | 2000 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 18,919 | \$ 20,201 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 3,800 | 400 |
| Provision for loss on other real estate owned | | 76 |
| Gain on sale of investments | (69) | (5) |
| Gain on sale of other real estate owned | | (64) |
| Reversal of provision in investments in real estate | | (262) |
| Depreciation and amortization | 2,941 | 2,947 |
| Net amortization of premiums and discounts on investments | 785 | 975 |
| Amortization of deferred loan fees | 717 | 818 |
| Changes in assets and liabilities: | | |
| Accrued interest receivable | (43) | 151 |
| Other assets, net of change in deferred tax | (226) | (2,765) |
| Accrued interest payable and other liabilities | (3,696) | 4,598 |

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| | Nine Month Period Ended September 30, | |
|--|--|-----------|
| | 2001 | 2000 |
| Net cash provided by operating activities | 23,128 | 27,070 |
| INVESTING ACTIVITIES | | |
| Net cash from proceeds of investments in real estate | (3) | 1,548 |
| Net cash from proceeds of other real estate owned | | 313 |
| Proceeds from sales and maturities of investments | 115,581 | 106,137 |
| Purchases of investments | (122,378) | (45,633) |
| Increase in loans | (69,202) | (118,044) |
| Cash acquired in acquisition, net of cash used | 53,308 | |
| Purchases of premises and equipment, net | (30) | (1,553) |
| Net cash used in investing activities | (22,724) | (57,232) |
| FINANCING ACTIVITIES | | |
| Increase in deposits | 104,576 | 54,996 |
| Decrease in other borrowings | (16,002) | (6,315) |
| Exercise of stock options | 379 | 297 |
| Cash dividends paid | (5,898) | (5,562) |
| Repurchase of common stock | (4,705) | (8,244) |
| Net cash provided by financing activities | 78,350 | 35,172 |
| Increase in cash and cash equivalents | 78,754 | 5,010 |
| Cash and cash equivalents, beginning of period | 88,988 | 73,580 |
| Cash and cash equivalents, end of period | \$ 167,742 | \$ 78,590 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest | \$ 20,247 | \$ 20,064 |
| Cash paid during the period for taxes on income | 8,700 | 9,250 |
| Transfers from loans to other real estate owned | | 1,007 |

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| | Nine Month Period Ended September 30, | |
|--|--|-----------|
| | 2001 | 2000 |
| ACQUISITIONS | | |
| The following table outlines the assets acquired, liabilities assumed and cash paid: | | |
| Fair value of assets acquired | \$ 292,901 | \$ |
| Goodwill created in acquisition | | 34,135 |
| Liabilities assumed | | (255,536) |
| Acquisition price | | 71,500 |
| Less: | | |
| Common stock issued | | (39,900) |
| Amounts payable to Americorp shareholders and other accruals | | (8,502) |

| | Nine Month Period Ended September 30, | |
|---------------------------------|--|-------|
| | _____ | _____ |
| Cash paid | (23,098) | |
| Cash acquired | 76,406 | |
| | _____ | _____ |
| Cash acquired, net of cash paid | \$ 53,308 | \$ |
| | _____ | _____ |

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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"). Mid-State Bank & Trust changed its name from Mid-State Bank on June 12, 2001 to reflect the addition of a trust department to its operations at the beginning of the year. All significant intercompany 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, 2000 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, 2000. 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 (unaudited).

| | Three Month Period Ended September 30, 2000 | | | Three Month Period Ended September 30, 2001 | | |
|---|--|--------|---------|--|--------|---------|
| | Earnings | Shares | EPS | Earnings | Shares | EPS |
| Net Income as reported | \$ 5,595 | | | \$ 6,997 | | |
| Basic Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ 5,595 | 21,827 | \$ 0.26 | \$ 6,997 | 22,050 | \$ 0.32 |
| Effect of dilutive securities: | | | | | | |
| Stock Options | | 811 | | | 468 | |
| Diluted Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ 5,595 | 22,638 | \$ 0.25 | \$ 6,997 | 22,518 | \$ 0.31 |

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| | Nine Month Period Ended September 30, 2001 | | | Nine Month Period Ended September 30, 2000 | | |
|---|---|--------|---------|---|--------|---------|
| | Earnings | Shares | EPS | Earnings | Shares | EPS |
| Net Income as reported | \$ 18,919 | | | \$ 20,201 | | |
| Basic Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ 18,919 | 21,894 | \$ 0.86 | \$ 20,201 | 22,338 | \$ 0.90 |
| Effect of dilutive securities: | | | | | | |
| Stock Options | | 810 | | | 466 | |
| Diluted Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ 18,919 | 22,704 | \$ 0.83 | \$ 20,201 | 22,804 | \$ 0.89 |

NOTE C MERGER OF MID-STATE BANCSHARES AND AMERICORP

On September 28, 2001, Mid-State Bancshares and its wholly owned subsidiary Mid-State Bank & Trust acquired 100 percent of the outstanding common stock of Americorp. The results of Americorp's operations have been included in the consolidated financial statements since that date. Americorp is the holding company of American Commercial Bank. American Commercial Bank is a community bank that serves Ventura county. The merger will give Mid-State Bank & Trust five new offices in Ventura county.

The aggregate purchase price was \$71.5 million, including \$31.6 million in cash paid to Americorp shareholders and for other merger related expenses along with \$39.9 million in Mid-State Bancshares' common stock and common stock options issued. The value of the 2.45 million shares issued was determined based on the average closing market price of Mid-State Bancshares' common stock over the twenty consecutive trading days that Mid-State Bancshares' stock traded ending September 21, 2001. The average price of Mid-State Bancshares' stock over that period was \$15.9853. The merger was accounted for utilizing the purchase method of accounting (see Note F below).

A pro forma summary of revenue, net income and earnings per share as if the merger was in effect at the start of the accounting periods noted is displayed below. This summary specifically excludes any expense savings achieved as a result of the merger. Adjustments have been made to reflect the amortization of the core deposit intangible and the loss of interest on cash utilized to complete the merger. These results are not included in the financial statements included herein. Figures are in thousands (unaudited), except per share data.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Pro Forma Interest and Non Interest Income: | | | | |
| Combined Mid-State Bancshares and Americorp | \$ 40,013 | \$ 38,659 | \$ 116,435 | \$ 111,363 |
| Pro Forma Net Income: | | | | |
| Combined Mid-State Bancshares and Americorp | \$ 3,844 | \$ 7,616 | \$ 17,946 | \$ 21,846 |
| Pro Forma Earnings Per Share Basic | \$ 0.16 | \$ 0.31 | \$ 0.74 | \$ 0.88 |
| Pro Forma Earnings Per Share Diluted | \$ 0.15 | \$ 0.30 | \$ 0.71 | \$ 0.86 |

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NOTE D TRANSFER OF INVESTMENT SECURITIES HELD-TO-MATURITY TO INVESTMENT SECURITIES AVAILABLE FOR SALE

On January 1, 2001, the remaining \$25.6 million in the Held-to-Maturity portion of the Investment Securities Portfolio was transferred to the Available for Sale portion of the Investment Securities Portfolio. Ordinarily such transfers are prohibited, however, concurrent with the adoption of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, a one time

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reclassification was permitted. Additionally, in connection with the merger with American Commercial Bank, Mid-State Bancshares' classified approximately \$3.7 million of securities as Available for Sale which were previously categorized as Held to Maturity on American Commercial Bank's Statement of Financial Position. This action was taken in conformance with Mid-State Bancshares' overall asset/liability and investment management policy.

NOTE E TWO-FOR-ONE STOCK SPLIT

On January 10, 2001, the Board of Directors of Mid-State Bancshares declared a two-for-one stock split of its outstanding shares of common stock. The record date for the split was January 26, 2001 and the split was distributed on February 26, 2001. All per share amounts reported in this Report on Form 10-Q have been retroactively restated to reflect the two-for-one stock split.

NOTE F RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations and is effective for all business combinations accounted for by the purchase method completed after June 30, 2001. SFAS No. 141 requires all business combinations be accounted for using the purchase method. The Bank adopted SFAS No. 141 during the third quarter of 2001, and the merger, which is discussed in Note C, is accounted for in accordance with SFAS No. 141.

SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life, rather goodwill will be subject to at least an annual assessment for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, with a provision that states goodwill acquired in a business combination for which the acquisition date is after June 30, 2001 should not be amortized. Accordingly, the goodwill generated through the merger, which is discussed in Note C, will not be amortized. Management anticipates adopting SFAS No. 142 on January 1, 2002. Management believes that the adoption of SFAS No. 142 will not have a material impact on the Bank's results of operations or financial condition.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30. It addresses financial accounting and reporting for the impairment of long-lived assets to be disposed of. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management believes that the adoption of SFAS No. 144 will not have a material impact on the Bank's results of operation or financial condition.

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

Selected Financial Data Summary. The following table provides certain selected financial data as of and for the three and nine month periods ended September 30, 2001 and 2000 (unaudited).

| | Quarter Ended | | Year-to-Date | |
|---|--|-----------------------|-----------------------|-----------------------|
| | <i>Sept. 30, 2001</i> | <i>Sept. 30, 2000</i> | <i>Sept. 30, 2001</i> | <i>Sept. 30, 2000</i> |
| | <i>(Unaudited)</i> | | | |
| | <i>(In thousands, except per share data)</i> | | | |
| Interest Income (not taxable equivalent) | \$ 29,902 | \$ 28,262 | \$ 84,646 | \$ 81,300 |
| Interest Expense | 6,427 | 7,122 | 20,516 | 20,218 |
| Net Interest Income | 23,475 | 21,140 | 64,130 | 61,082 |
| Provision for Loan Losses | 3,200 | 300 | 3,800 | 400 |
| Net Interest Income after provision for loan losses | 20,275 | 20,840 | 60,330 | 60,682 |
| Non-interest income | 5,185 | 4,553 | 15,779 | 13,420 |

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| | Quarter Ended | | Year-to-Date | |
|-------------------------------------|---------------|----------|--------------|-----------|
| | | | | |
| Non-interest expense operating | 16,248 | 14,724 | 47,596 | 43,070 |
| Non-interest expense merger charges | 300 | | 300 | |
| Income before income taxes | 8,912 | 10,669 | 28,213 | 31,032 |
| Provision for income taxes | 3,317 | 3,672 | 9,294 | 10,831 |
| Net Income | \$ 5,595 | \$ 6,997 | \$ 18,919 | \$ 20,201 |

| | Quarter Ended | | Year-to-Date | |
|--|----------------|----------------|----------------|----------------|
| | Sept. 30, 2001 | Sept. 30, 2000 | Sept. 30, 2001 | Sept. 30, 2000 |

(In thousands, except per share data)

Per share:

| | | | | |
|--|---------|---------|---------|---------|
| Net Income basic | \$ 0.26 | \$ 0.32 | \$ 0.86 | \$ 0.90 |
| Net Income diluted | \$ 0.25 | \$ 0.31 | \$ 0.83 | \$ 0.89 |
| Weighted average shares used in Basic E.P.S. calculation | 21,827 | 22,050 | 21,894 | 22,338 |
| Weighted average shares used in Diluted E.P.S. calculation | 22,638 | 22,518 | 22,704 | 22,804 |
| Cash dividends | \$ 0.09 | \$ 0.09 | \$ 0.27 | \$ 0.25 |
| Book value at period-end | | | \$ 9.66 | \$ 7.65 |
| Tangible Book value at period-end | | | \$ 7.91 | \$ 7.57 |
| Ending Shares | | | 24,197 | 22,011 |

Financial Ratios

| | | | | |
|--|--------|--------|--------|--------|
| Return on assets | 1.44% | 1.99% | 1.71% | 1.96% |
| Return on equity | 11.70% | 16.71% | 13.64% | 16.43% |
| Net interest margin (not taxable equivalent) | 6.48% | 6.52% | 6.26% | 6.44% |
| Net interest margin (taxable equivalent yield) | 6.77% | 6.81% | 6.57% | 6.73% |
| Net loan losses to average loans | 0.80% | 0.10% | 0.28% | 0.07% |
| Efficiency ratio (includes impact of merger charges) | 57.7% | 57.3% | 59.9% | 57.8% |

Period Averages

| | | | | |
|----------------------|--------------|--------------|--------------|--------------|
| Total Assets | \$ 1,542,430 | \$ 1,399,558 | \$ 1,477,056 | \$ 1,378,169 |
| Total Loans & Leases | 974,885 | 859,978 | 951,568 | 832,588 |
| Total Earning Assets | 1,438,098 | 1,289,273 | 1,370,051 | 1,267,054 |
| Total Deposits | 1,330,620 | 1,213,469 | 1,273,122 | 1,198,199 |
| Common Equity | 189,679 | 166,575 | 185,448 | 164,283 |

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| | Sept. 30, 2001 | | Sept. 30, 2000 | |
|---|----------------|--------------|----------------|--|
| | | | | |
| Balance Sheet At Period-End | | | | |
| Cash and due from banks | \$ 95,742 | \$ 78,590 | | |
| Investments and Fed Funds Sold | 513,492 | 406,186 | | |
| Loans, net of deferred fees, before allowance for loan losses | 1,176,486 | 884,621 | | |
| Allowance for Loan Losses | (20,535) | (13,093) | | |
| Goodwill and Other Intangibles | 42,277 | 1,816 | | |
| Other assets | 53,932 | 58,499 | | |
| Total Assets | \$ 1,861,394 | \$ 1,416,619 | | |

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| | <u>Sept. 30, 2001</u> | <u>Sept. 30, 2000</u> |
|--|-----------------------------|-----------------------------|
| Non-interest bearing deposits | \$ 359,628 | \$ 256,729 |
| Interest bearing deposits | 1,230,109 | 966,721 |
| Other borrowings | 14,238 | 9,042 |
| Other liabilities | 23,677 | 15,674 |
| Shareholders' equity | 233,742 | 168,453 |
| | <u> </u> | <u> </u> |
| Total Liabilities and Shareholders' equity | \$ 1,861,394 | \$ 1,416,619 |
| | <u> </u> | <u> </u> |

Asset Quality & Capital At Period-End

| | | |
|--------------------------------|-----------------------------|-----------------------------|
| Non-accrual loans | \$ 6,845 | \$ 5,351 |
| Loans past due 90 days or more | 243 | 416 |
| Other real estate owned | | 682 |
| | <u> </u> | <u> </u> |
| Total non-performing assets | \$ 7,088 | \$ 6,449 |
| | <u> </u> | <u> </u> |

| | | |
|---|--------|--------|
| Allowance for loan losses to loans, gross | 1.7% | 1.5% |
| Non-accrual loans to total loans, gross | 0.6% | 0.6% |
| Non-performing assets to total assets | 0.4% | 0.5% |
| Allowance for loan losses to non-performing loans | 289.7% | 227.0% |
| Equity to average assets (leverage ratio) | 12.2% | 12.1% |
| Leverage Ratio, if based on ending assets | 10.1% | 12.0% |
| Tier One capital to risk-adjusted assets | 13.2% | 15.5% |
| Total capital to risk-adjusted assets | 14.4% | 16.7% |

Performance Summary. Mid-State's earnings in the third quarter of 2001 were \$5.6 million compared to \$7.0 million in the same quarter of 2000. This amounted to \$0.25 per share compared to \$0.31 per share a year earlier. In a similar manner, for the nine months year-to-date, earnings were \$18.9 million, or \$0.83 per share, which is below the \$20.2 million, or \$0.89 per share, earned in the 2000 period. Quarterly earnings reflect the after-tax impact of certain non-recurring items that collectively reduced net income by \$230 thousand. These included an additional provision of \$2.9 million to bolster the Company's allowance for loan losses and a recovery of interest income on loans previously charged-off, totaling \$2.8 million.

Net Interest Income. Mid-State's annualized yield on interest earning assets was 8.26% for the first nine months of 2001 (8.57% on a taxable equivalent basis) and 8.25% (8.54% on a taxable equivalent basis) for the third quarter of 2001. This compares to 8.57% in the 9 month 2000 period (8.86% on a taxable equivalent basis) and 8.72% in the third quarter of 2000 (9.01% on a taxable equivalent basis). The decrease in yield is related to the general decline in interest rates. The Prime Rate, to which many of the Bank's loans are tied, averaged 7.50% in the first nine months of 2001 compared to 9.18% in the 2000 period. The magnitude of the decrease in yield is understated somewhat by virtue of the \$2.8 million recovery of interest on loans previously charged-off which was realized in the third quarter of 2001 and is of a non-recurring nature. Annualized interest expense as a percent of earning assets has

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also declined from the prior year. In the first nine months of 2000, annualized interest expense represented 2.13% of earning assets compared to 2.00% in this year's first nine month period. Similarly, the annualized interest expense in the third quarter of this year was 1.77% compared to 2.20% in the like quarter of 2000. The following table delineates the components of net interest income, both as reported and as adjusted for the non-recurring recovery, covering the three month and nine month periods of 2001 and 2000 on a taxable equivalent and non taxable equivalent basis.

Not Taxable Equivalent

| As Reported Q3-2001 | Adjusted* Q3-2001 | <u>Q3-2000</u> | As Reported 9 Mos '01 | Adjusted* 9 Mos '01 | <u>9 Mos '00</u> |
|---------------------------|----------------------|----------------|-----------------------------|------------------------|------------------|
|---------------------------|----------------------|----------------|-----------------------------|------------------------|------------------|

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| | | | | | | |
|---------------------|-------|-------|-------|-------|-------|-------|
| Interest Income | 8.25% | 7.48% | 8.72% | 8.26% | 7.99% | 8.57% |
| Interest Expense | 1.77% | 1.77% | 2.20% | 2.00% | 2.00% | 2.13% |
| Net Interest Income | 6.48% | 5.70% | 6.52% | 6.26% | 5.99% | 6.44% |

Taxable Equivalent Basis

| | As Reported Q3-2001 | Adjusted* Q3-2001 | Q3-2000 | As Reported 9 Mos '01 | Adjusted* 9 Mos '01 | 9 Mos '00 |
|---------------------|---------------------------|----------------------|---------|-----------------------------|------------------------|-----------|
| Interest Income | 8.54% | 7.76% | 9.01% | 8.57% | 8.30% | 8.86% |
| Interest Expense | 1.77% | 1.77% | 2.20% | 2.00% | 2.00% | 2.13% |
| Net Interest Income | 6.77% | 5.99% | 6.81% | 6.57% | 6.30% | 6.73% |

*

Adjusted for non-recurring recovery of \$2.8 million which was booked to interest income in Q3-01.

Overall, Mid-State's annualized net interest income, when adjusted for the non-recurring recovery and expressed as a percent of earning assets, decreased from 6.44% for the nine month period of 2000 (6.73% on a taxable equivalent basis) to 5.99% in the comparable 2001 period (6.30% on a taxable equivalent basis). For the third quarter of 2001 compared to the third quarter of 2000, net interest income when adjusted for the non-recurring recovery and expressed as a percent of earning assets, decreased from 6.52% (6.81% taxable equivalent) to 5.70% (5.99% taxable equivalent).

Average earning assets for the nine months ended September 30, 2001 increased from the like 2000 period (\$1,370.1 million compared to \$1,267.1 million). Average deposits in this same time-frame were up \$74.9 million, (\$1,273.1 million compared to \$1,198.2 million). In comparing third quarter 2001 to third quarter 2000, average earning assets increased from \$1,289.3 million one year ago to \$1,438.1 million and average deposits increased \$117.1 million from \$1,213.5 million one year ago to \$1,330.6 million. It should be noted that the averages referred to above include the acquisition of American Commercial Bank only to the extent that they reflect just two days of the new totals.

Provision and Allowance for Loan Losses. The Bank made a provision to the allowance for loan losses of \$3.8 million in the first nine months of 2001. The Bank provided \$400 thousand in the comparable 2000 period. The majority of the provision took place in the third quarter of 2001 totaling \$3.2 million compared to \$300 thousand in the comparable 2000 period. Management believes that the allowance, which stands at 1.7% of total loans at September 30, 2001, up from 1.5% one year earlier, is adequate to cover inherent losses. The effects of an economic slow-down prompted management to re-evaluate the allowance for loan losses. Accordingly, management recommended and the Board of Directors authorized the additional \$2.9 million provision for loan losses during the third quarter.

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Additionally, the Bank charged off two large credits during the third quarter of 2001 accounting for the majority of the \$2.1 million in losses incurred during the period. Losses in the comparable 2000 period were \$369 thousand.

The \$20.5 million allowance is about 290% of the level of non performing assets which stand at \$7.1 million compared to \$6.4 million one year earlier. Non performing assets consist of loans on non-accrual, accruing loans 90 days or more past due and Other Real Estate Owned. Other Real Estate Owned reflects property acquired through foreclosure which had secured Bank loans on which the borrower defaulted. While continuing efforts are made to improve overall asset quality, Management is unable to estimate with certainty, how and under what terms, problem assets will be resolved.

Changes in the allowance for loan losses for the periods ended September 30, 2001 and 2000 are as follows (in thousands):

3 Months Ended Sept. 30,

9 Months Ended Sept. 30,

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| | 3 Months Ended Sept. 30, | | 9 Months Ended Sept. 30, | |
|---|--------------------------|-----------|--------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Balance at beginning of period | \$ 13,839 | \$ 13,000 | \$ 13,280 | \$ 13,105 |
| Provision for loan losses | 3,200 | 300 | 3,800 | 400 |
| Loans charged off | (2,124) | (369) | (2,548) | (943) |
| Recoveries of loans previously charged-off | 156 | 162 | 539 | 531 |
| Acquisition of Allowance for Loan Losses American Commercial Bank | 5,464 | | 5,464 | |
| Balance at end of period | \$ 20,535 | \$ 13,093 | \$ 20,535 | \$ 13,093 |

At September 30, 2001, the recorded investments in loans which have been identified as impaired totaled \$13,023,000, of which \$4,411,000 were tied to corresponding valuation allowances totaling \$1,506,000. Impaired loans totaled \$5,519,000 at September 30, 2000, all of which were tied to corresponding valuation allowances totaling \$1,238,000. The valuation allowance for impaired loans is included within the general allowance shown above and netted against loans on the consolidated statements of financial position. Approximately \$5.5 million of the increase in impaired loans from one year ago is the addition of the loan portfolio from American Commercial Bank. For the quarter ended September 30, 2001, the average recorded investment in impaired loans was \$8,343,000, which was an increase from the 2000 period of \$6,306,000. A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Because this definition is very similar to that used by bank regulators to determine on which loans interest should not be accrued, the Bank expects that most impaired loans will be on non-accrual status.

Non-interest Income. Non-interest income for the first nine months of 2001 was \$15.8 million, up from \$13.4 million earned in the same 2000 period, an increase of 17.5%. The increase was primarily related to improved service charge income of \$591 thousand over the comparable periods, increased income from mortgage origination of \$867 thousand, a \$428 thousand increase in ATM and debit card fee income, and a \$243 thousand increase in merchant Mastercard fee income. The same categories accounted for the overall increase in non-interest income from \$4.6 million in the third quarter of 2000 to \$5.2 million in the third quarter of 2001.

Non-interest Expense. Non-interest expense for the first nine months of 2001, excluding non-recurring merger charges of \$300 thousand, totaled \$47.6 million compared to \$43.1 million in the like 2000 period. This increase was primarily the result of increases in salaries of approximately \$1.2 million, a decrease in employee benefits costs of \$382 thousand, an increase in occupancy expense of \$260

thousand, donation of property charged to expense related to obtaining a State Natural Heritage Tax Credit of \$1.7 million, increases in advertising and stationery and supplies expenditures principally related to the Bank's name change of \$477 thousand, increases in merchant Mastercard processing charges of \$356 thousand, outsourcing charges for the Company's internal audit function of \$414 thousand, and an operating loss of \$211 thousand.

For the three months ended September 30, 2001, excluding non-recurring merger charges of \$300 thousand, non-interest expense totaled \$16.2 million compared to \$14.7 million in the 2000 quarter. This increase was primarily the result of increases in salaries of \$267 thousand, increases in advertising and stationery and supplies expenditures principally related to the Bank's name change of \$281 thousand, increases in merchant Mastercard processing charges of \$148 thousand, outsourcing charges for the Company's internal audit function of \$277 thousand, and an operating loss of \$211 thousand.

Provision for Income Taxes. The year-to-date provision for income taxes was \$9.3 million, compared to \$10.8 million for the same period in 2000. The effective tax rate in 2001 was 32.9% compared to 34.9% in 2000. The effective tax rate in 2001 is somewhat lower than the prior year's nine month period due to an increase in tax exempt income recognized by the Company during 2001 of approximately \$666 thousand and the impact of the State Natural Heritage Tax Credit received by the Bank. While the statutory combined federal and state statutory tax rate is 42% for Mid-State Bancshares, the tax exempt income generated by its municipal bond portfolio is the primary reason that the effective rate is usually lower.

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Balance Sheet. Total assets at September 30, 2001 totaled \$1,861.4 million, up 31.3% from the level one year earlier of \$1,416.6 million. Approximately \$307.3 million of this \$444.8 million increase is a result of the merger with Americorp which was completed on September 28, 2001. Of the \$307.3 million increase, \$282.8 million represented the stand-alone assets of Americorp. Goodwill, deposit intangibles, mark to market adjustments and the creation of deferred tax assets accounted for another \$44.2 million of the increase reduced by \$19.7 million of cash paid to Americorp shareholders as part of the transaction. An additional \$7.2 million of cash is scheduled to be paid to former Americorp shareholders which will take place sometime in the fourth quarter. A comparison of selected balance sheet components from one year earlier and the contribution towards that change that came about from the merger are presented in the table below:

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Mid-State Bancshares Condensed Balance Sheet At Period-End

| | <u>Sept. 30, 2001</u> | <u>Sept. 30, 2000</u> | <u>\$Change</u> | <u>Approximate Portion of \$ Change due to Merger</u> |
|---|-----------------------|-----------------------|-------------------|---|
| <i>(Unaudited In thousands)</i> | | | | |
| Cash and due from banks | \$ 95,742 | \$ 78,590 | \$ 17,152 | \$ 4,665 |
| Investments and Fed Funds Sold | 513,492 | 406,186 | 107,306 | 66,606 |
| Loans, before allowance for loan losses | 1,176,486 | 884,621 | 291,865 | 190,043 |
| Allowance for Loan Losses | (20,535) | (13,093) | (7,442) | (5,464) |
| Goodwill and Other Intangibles | 42,277 | 1,816 | 40,461 | 40,400 |
| Other assets | 53,932 | 58,499 | (4,567) | 11,045 |
| Total Assets | \$ 1,861,394 | \$ 1,416,619 | \$ 444,775 | \$ 307,295 |
| Non-interest bearing deposits | \$ 359,628 | \$ 256,729 | \$ 102,899 | \$ 83,048 |
| Interest bearing deposits | 1,230,109 | 966,721 | 263,388 | 170,951 |
| Other borrowings | 14,238 | 9,042 | 5,196 | |
| Other liabilities | 23,677 | 15,674 | 8,003 | 10,040 |
| Shareholders' equity | 233,742 | 168,453 | 65,289 | 43,256 |
| Total Liabilities and Shareholders' equity | \$ 1,861,394 | \$ 1,416,619 | \$ 444,775 | \$ 307,295 |

Mid-State's loan to deposit ratio of 74.0% at September 30, 2001 is up slightly from the 72.3% ratio one year earlier. American Commercial Bank's loan to deposit ratio was substantially similar to Mid-State's at the time of merger and had an insignificant effect on this ratio.

Investment Securities and Fed Funds Sold. Of the \$513.5 million portfolio at September 30, 2001, 14% is invested in overnight fed funds sold, 8% is invested in U.S. Treasury securities, 29% is invested in U.S. Government agency obligations, 45% is invested in securities issued by states and political subdivisions in the U.S. and 4% is invested in mortgage-backed securities and other securities. Seventy-two percent of all investment securities and fed funds sold combined mature within five years. Approximately 29% of investment securities and fed funds sold combined mature in less than one year. The Bank's investment in mortgage-backed securities consist of investments in FNMA, FHLMC and other pass-thru pools which have contractual maturities of up to 30 years. The actual time of repayment will be shorter due to prepayments made on the underlying collateral.

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Capital Resources. Total stockholders' equity increased from \$168.5 million at September 30, 2000 to \$233.7 million at September 30, 2001. Changes in stockholders' equity over this 12 month period includes activity outlined in the following table:

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| | Common Stock & Surplus | Undivided Profits | Accumulated Comprehensive Income | Total Equity |
|---|---------------------------|----------------------|--|-----------------|
| Ending Equity at September 30, 2000 | 51,734 | 118,996 | (2,277) | 168,453 |
| Net Income Fourth Quarter 2000 | | 7,148 | | 7,148 |
| Common Stock Repurchased Fourth Quarter 2000 | (9) | | | (9) |
| Stock Options Exercised Fourth Quarter 2000 | 48 | | | 48 |
| Dividend Declared December 31, 2000 | | (1,982) | | (1,982) |
| Change in Accumulated Other Comprehensive Income | | | 3,484 | 3,484 |
| Ending Equity at December 31, 2000 | 51,773 | 124,162 | 1,207 | 177,142 |
| Net Income 9 Months Y-T-D 2001 | | 18,919 | | 18,919 |
| Common Stock Repurchased 9 Months Y-T-D 2001 | (4,706) | | | (4,706) |
| Stock Options Exercised 9 Months Y-T-D | 379 | | | 379 |
| Regular Dividends 9 Months Y-T-D | | (5,898) | | (5,898) |
| Change in Accumulated Other Comprehensive Income | | | 8,005 | 8,005 |
| Stock Issued to Americorp Shareholders | 39,178 | | | 39,178 |
| Fair Market Value of Stock Options Issued in Connection with Merger | 723 | | | 723 |
| Ending Equity at September 30, 2001 | 87,347 | 137,183 | 9,212 | 233,742 |

Capital continues to be strong with Mid-State Bancshare's ratio of tier one equity capital to average assets ("leverage ratio") at 12.2% up from 12.1% one year earlier. However, average assets are lower than ending assets principally because of the effect of the merger occurring at the end of the quarter. If ending assets were utilized, the leverage ratio would have been 10.1% at September 30, 2001. The decline from 12.0% one year earlier is primarily a result of the merger with Americorp. The Goodwill and intangibles created from the merger are disallowed from capital when calculating the ratio. However, at 10.1%, Mid-State is still more than double the 5.0% minimum leverage ratio necessary to be considered "Well Capitalized" for capital adequacy purposes. Mid-State's ratios of tier one capital and total capital to risk-adjusted assets also declined, principally because of the merger. The Tier One ratio went from 15.5% one year earlier to 13.2% at September 30, 2001. The Total Capital ratio went from 16.7% one year earlier to 14.4% at September 30, 2001. Mid-State also substantially exceeds the standards to be considered well capitalized for these ratios which are 6.0% for the ratio of tier one capital to risk weighted assets and 10.0% for the ratio of total capital to risk weighted assets.

Liquidity. The focus of the Company's liquidity management is to ensure its ability to meet cash requirements. Sources of liquidity include cash, due from bank balances (net of Federal Reserve

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requirements to maintain reserves against deposit liabilities), fed funds sold, investment securities (net of pledging requirements), loan repayments, deposits and fed funds borrowing lines. Typical demands on liquidity are deposit run-off from demand deposits and savings accounts, maturing time deposits, which are not renewed, and anticipated funding under credit commitments to customers.

The Bank has adequate liquidity at the present time. Its loan to deposit ratio at September 30, 2001 was 74.0% versus 72.3% one year earlier. The Bank's internally calculated liquidity ratio stands at 33.3% at September 30, 2001, which is above its minimum policy of 15% and below the 35.7% level of September 30, 2000. Management is not aware of any future capital expenditures or other significant demands or commitments which would severely impair liquidity.

Important Factors Relating to Forward-Looking Statements. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. All of the statements contained in this Quarterly Report on Form 10-Q which are not identified as historical should be considered forward-looking. In connection with certain forward-looking statements contained in this Quarterly Report on Form 10-Q and those that may be made in the future by or on behalf of the Company which are identified as forward-looking, the Company notes that there are various factors that could cause actual results to differ materially from those set forth in any such forward-looking statements. Such factors include, but are not limited to, the real estate market, the availability of loans at acceptable prices, the general level of economic activity both locally and nationally, interest rates, the actions by the Company's regulatory agencies, and actions by competitors of the Company. Additional information on these and other factors that could affect financial results are included in the Company's Securities and Exchange Commission filings. The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein to reflect future events or developments. There can be no assurance that the forward-looking statements contained in this Quarterly Report on Form 10-Q will be realized or that actual results will not be significantly higher or lower. The forward-looking statements have not been audited by, examined by or subjected to agreed-upon procedures by independent accountants, and no third-party has independently verified or reviewed such statements. Readers of this Quarterly Report on Form 10-Q should consider these facts in evaluating the information contained herein. The inclusion of the forward-looking statements contained in this Quarterly Report on Form 10-Q should not be regarded as a representation by the Company or any other person that the forward-looking statements contained in this Quarterly Report on Form 10-Q will be achieved. In light of the foregoing, readers of this Quarterly Report on Form 10-Q are cautioned not to place undue reliance on the forward-looking statements contained herein.

Item 3 Quantitative and Qualitative Disclosure About Market Risk

The Bank's risk exposure to changes in interest rates is minimal. A recent review of the potential changes in the Bank's net interest income (results of which included the impact of the acquisition of Americorp) over a 12 month time horizon showed that it could fluctuate under very extreme alternative rate scenarios from between +3.6% and -7.5% of the base case (rates unchanged). The Bank's policy is to maintain a structure of assets and liabilities which are such that net interest income will not vary more than plus or minus 15% of the base forecast over the next 12 months. Management feels that its exposure to interest rate risk is manageable and it will continue to strive for an optimal trade-off between risk and earnings. Since the Company's last review of this exposure to interest rate risk, the Federal Reserve Bank has lowered its target fed funds rate three times. As a result of these actions, Mid-State Bancshares and other lenders now have a prime rate equal to 5.00% as of November 7, 2001.

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The following table presents a summary of the Bank's net interest income forecasted for the coming 12 months under alternative interest rate scenarios.

| | Change From Base |
|---|---------------------|
| Rates Down Very Significant (Prime down to 3.00% over 12 months) | -7.5% |
| Rates Down Significant (Prime down to 4.00% over 12 months) | -5.8% |
| Rates Down Modestly (Prime down to 5.50% over 12 months) | -3.3% |
| Base Case Rates Unchanged | |

| | <u>Change From Base</u> |
|---|-----------------------------|
| (Prime unchanged at 6.50% over 12 months) | |
| Rates Up Modestly (Prime up to 7.50% over 12 months) | +0.0% |
| Rates Up Aggressive (Prime up to 9.00% over 12 months) | +2.2% |
| Rates Up Very Aggressive (Prime up to 10.50% over 12 months) | +3.6% |

Net interest income under the above scenarios is influenced by the characteristics of the Bank's assets and liabilities. In the case of N.O.W., savings and money market deposits (total \$765.6 million) interest is based on rates set at the discretion of Management ranging from 0.25% to 1.68%. In a downward rate environment, there is a limit to how far these deposit instruments can be re-priced. In an upward rate environment, the magnitude and timing of changes in rates on these deposits is assumed to be more reflective of variable rate instruments. These characteristics are the main reasons that a 3.50% decline in Prime decreases net interest income by 7.5% while a 3.5% increase in Prime increases net interest income by just 3.6%.

It is important to note that the above table is a summary of several forecasts and actual results may vary. The forecasts are based on estimates and assumptions of Management that may turn out to be different and may change over time. Factors affecting these estimates and assumptions include, but are not limited to competitors' behavior, economic conditions both locally and nationally, actions taken by the Federal Reserve Board, customer behavior, and Management's responses. Historically, the Bank has been able to manage its Net Interest Income in a fairly narrow range reflecting the Bank's relative insensitivity to interest rate changes. The impact of prepayment behavior on mortgages, real estate loans, mortgage backed securities, securities with call features, etc. is not considered material to the sensitivity analysis. Over the last 5 years, and excluding the first nine months of 2001, the Bank's net interest margin (which is net interest income divided by average earning assets of the Bank) has ranged from a low of 5.71% to a high of 6.44% (not taxable equivalent). The Bank's net interest margin in the third quarter of 5.70% (adjusted for the \$2.8 million non-recurring recovery) is at the low end of this range by these historical standards. Based on the scenarios above, the net interest margin under the alternative scenarios ranges from 5.46% to 6.11%. Management feels this range of scenarios is appropriate in view of its historical performance, but no assurances can be given that actual experience will fall within this range.

The Bank's exposure with respect to interest rate derivatives, exchange rate fluctuations, and/or commodity price movements is nil. The Bank does not own any instruments within these markets.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

Mid-State is not a party to any material legal proceeding.

Item 2 Changes in Securities and Use of Proceeds

There were no material changes in securities and uses of proceeds during the period covered by this report.

Item 3 Defaults Upon Senior Securities

Not applicable.

Item 4 Submission of Matters to a Vote of Security Holders

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No matters were submitted to the Shareholders for a vote during the third quarter of 2001.

Item 5 Other Information

Not applicable.

Item 6 Exhibits and Reports on Form 8-K

A) Exhibits

| Exhibit No. | Exhibit |
|-------------|---------|
| None | |

B) Reports on Form 8-K

During the third quarter of 2001, the Company filed one report on Form 8-K. The report, filed on August 7, 2001, was notification that on August 3 the Board of Directors of Mid-State Bancshares and Americorp had agreed to further amend the definitive agreement in response to the announcement by Americorp and American Commercial Bank that both core earnings in the second quarter and expectations for future core earnings were lower than originally budgeted. To correct that situation, the Boards of both banks agreed to further amend the Agreement to provide for a maximum amount of Mid-State stock to be issued in the merger.

SIGNATURES

Pursuant to the requirement of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MID-STATE BANCSHARES
(registrant)

Date: November 12, 2001

By: /s/ CARROL R. PRUETT

CARROL R. PRUETT
President
Chairman of the Board

Date: November 12, 2001

By: /s/ JAMES G. STATHOS

JAMES G. STATHOS
Executive Vice President
Chief Financial Officer

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