

MID-STATE BANCSHARES
Form PREM14A
December 18, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

- x Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- o Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Mid-State Bancshares

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- o No fee required.
- x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies: Common Stock, no par value
(2)	Aggregate number of securities to which transaction applies: 22,221,258 shares of common stock
(3)	and options to purchase 1,837,839 shares of common stock. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): The filing fee was determined by multiplying \$0.000107 by the sum of (i) the product of 22,221,258 shares multiplied by the \$37.00 per share merger consideration; and (ii) the product of 1,837,839, representing the number of shares subject to stock options, multiplied by the difference between \$37.00 and \$20.1178, which represents the weighted average exercise price of the stock options.
(4)	Proposed maximum aggregate value of transaction: \$853,213,312
(5)	Total fee paid: \$91,293.82

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:

(4)

Date Filed:

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

To the Shareholders of Mid-State Bancshares:

The board of directors of Mid-State Bancshares, or Mid-State, has approved the acquisition of Mid-State by VIB Corp, a subsidiary of Rabobank Nederland, a Dutch financial services leader. The acquisition involves a series of mergers, including the merger of a subsidiary of VIB Corp with and into Mid-State, and the merger of Mid-State Bank & Trust into Rabobank, N.A., Rabobank's community banking subsidiary in California.

In the merger, shareholders of Mid-State will receive \$37.00 in cash for each share of Mid-State common stock that they own.

Mid-State's common stock is listed on the NASDAQ Global Market under the symbol MDST. On January [*], 2007, Mid-State's common stock closed at \$[*] per share and on November 1, 2006, the last trading day before the announcement of the merger, Mid-State's common stock closed at \$29.11 per share.

Mid-State is holding a special shareholders' meeting at which its shareholders will be asked to approve the principal terms of the Agreement and Plan of Merger, dated November 1, 2006, by and between VIB Corp, Chardonnay Merger Sub Corp. and Mid-State Bancshares and the transactions contemplated thereby. Information about the special meeting is contained in this proxy statement. You are urged to read this document carefully and in its entirety.

YOUR BOARD OF DIRECTORS HAS DETERMINED THAT THE MERGER IS IN THE BEST INTERESTS OF MID-STATE AND ITS SHAREHOLDERS AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE PRINCIPAL TERMS OF THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY.

We hope that you will attend the special meeting in person; however, we strongly encourage you to designate the proxies named on the enclosed proxy card to vote your shares. This will ensure that your common stock is represented at the special meeting. You will also be able to vote by telephone or by the Internet. The enclosed proxy card explains more about these voting procedures.

Whether or not you plan to attend the Mid-State special meeting, please vote as soon as possible to make sure that your shares are represented at the special meeting. If you do not vote, it will have the same effect as voting against the merger.

/s/ JAMES W. LOKEY
James W. Lokey
President and Chief Executive Officer
Mid-State Bancshares

This proxy statement is dated _____, 2007 and is first being mailed to shareholders on or about _____, 2007.

Sources of Additional Information

This document incorporates important business and financial information about Mid-State from documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain documents related to Mid-State that are incorporated by reference in this document, without charge, through the website of the Securities and Exchange Commission, or SEC, at www.sec.gov, through Mid-State's website listed below, or by requesting them in writing or by telephone.

Mid-State Bancshares
Attn: Marlene Weeks, Vice President
P.O. Box 6002
Arroyo Grande, California 93420
(805) 473-6829
www.midstatebank.com

(The website address given in this document is for information only and is not intended to be an active link or to incorporate any website information into this document.)

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this document.

In order to receive timely delivery of requested documents in advance of the special meeting, you should make your request no later than [*], 2007.

All information contained in this proxy statement with respect to Rabobank and its affiliates has been supplied by Rabobank. All information contained in this proxy statement with respect to Mid-State has been supplied by Mid-State.

You should rely only on the information provided or incorporated by reference in this proxy statement. We have not authorized anyone to provide you with different information. You should not assume that the information in this proxy statement is accurate as of any date other than the date on the front of the document.

See Where You Can Find More Information beginning on page [*].

Notice of Special Meeting of Mid-State Bancshares

- **Date:** [*]
- **Time:** [*]
- **Place:** [*]

To Mid-State Bancshares Shareholders:

We are pleased to notify you of, and invite you to, a special meeting of shareholders. At the meeting you will be asked to vote on the following matters:

- Proposal to approve the principal terms of the merger agreement, pursuant to which Mid-State Bancshares will be acquired by VIB Corp, and the transactions contemplated thereby as described in the attached proxy statement.
- Proposal to approve, if necessary, an adjournment of the special meeting to solicit additional proxies in favor of the principal terms of the merger agreement and the transactions contemplated thereby.

Only shareholders of record at the close of business on [*, 2007 may vote at the special meeting.

Pursuant to California law, Mid-State Bancshares shareholders are not entitled to dissenting shareholders' rights unless demands for payment are filed with respect to 5% or more of the outstanding shares. Further discussion of such law is contained in the attached proxy statement under the caption "The Merger Dissenting Shareholders' Rights." In addition, the text of the applicable provisions of California law relating to dissenting shareholders' rights are attached as Appendix C to the proxy statement.

Section 2.11 of the Mid-State Bylaws provides for the nomination of directors as follows:

Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Notice of intention to make any nominations (other than for persons named in the notice of the meeting at which such nomination is to be made) shall be made in writing and shall be delivered or mailed to the president of the Corporation by the later of the close of business 21 days prior to any meeting of shareholders called for the election of directors or 10 days after the date of mailing of notice of the meeting to shareholders. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the corporation owned by each proposed nominee; (d) the name and residence address of the notifying shareholder; (e) the number of shares of capital stock of the proposed nominee, a copy of which shall be furnished with the notification, whether the proposed nominee has ever been convicted of or pleaded nolo contendere to any criminal offense involving dishonesty or breach of trust, filed a petition in bankruptcy, or been adjudged bankrupt. The notice shall be signed by the nominating shareholder and by the nominee. Nominations not made in accordance herewith shall be disregarded by the chairman of the meeting, and upon his instructions, the inspectors of election shall disregard all votes cast for each such nominee. The restrictions set forth in this paragraph shall not apply to nomination of a person to replace a proposed nominee who has died or otherwise become incapacitated to serve as a director between the last day for giving notice hereunder and the date of election of directors if the procedure called for in this paragraph was followed with respect to the nomination of the proposed nominee.

IT IS VERY IMPORTANT THAT EVERY SHAREHOLDER VOTE. WE URGE YOU TO SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE, OR VOTE BY TELEPHONE OR INTERNET, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU DO ATTEND THE MEETING AND YOU WISH TO CHANGE YOUR VOTE, YOU MAY WITHDRAW YOUR PROXY PRIOR TO THE TIME IT IS VOTED AND VOTE IN PERSON OR BY FILING A LATER DATED PROXY.

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PLEASE INDICATE ON THE PROXY CARD WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING SO WE CAN PROVIDE ADEQUATE ACCOMMODATIONS.

IF YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON AND ARE A SHAREHOLDER OF RECORD, BRING WITH YOU A FORM OF GOVERNMENT-ISSUED PERSONAL IDENTIFICATION BEARING YOUR RECENT PHOTOGRAPH (SUCH AS A DRIVER'S LICENSE, STATE-ISSUED IDENTIFICATION CARD OR PASSPORT) TO THE SPECIAL MEETING.

IF YOU OWN STOCK THROUGH A BANK, BROKER OR OTHER NOMINEE YOU WILL ALSO NEED PROOF OF OWNERSHIP AS OF THE RECORD DATE SUCH AS A BANK OR BROKERAGE STATEMENT TO ATTEND THE SPECIAL MEETING (WHICH YOU MUST ASK THEM OR THEIR AGENT TO PROVIDE TO YOU). IN ORDER TO VOTE YOUR SHARES AT THE MID-STATE SPECIAL MEETING, YOU MUST OBTAIN FROM THE NOMINEE A PROXY ISSUED IN YOUR NAME.

By order of the Board of Directors
/s/ JAMES G. STATHOS
James G. Stathos, *Secretary*

[*], 2007

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QUESTIONS AND ANSWERS ABOUT VOTING

Q: Why have you sent me this document?

A: This document is being delivered to you because it is serving as a proxy statement for Mid-State Bancshares' special meeting of shareholders.

This proxy statement contains important information regarding the proposed merger. It also contains important information about what Mid-State's board of directors and management considered when evaluating this proposed merger. Mid-State urges you to read this proxy statement carefully, including its appendices.

Q: What is happening in this merger?

A: Mid-State is being acquired by VIB Corp, a subsidiary of Rabobank Nederland, in a series of mergers. Initially, VIB Corp (which is owned and controlled by Rabobank) will cause its wholly owned subsidiary, Chardonnay Merger Sub Corp., to be merged with and into Mid-State Bancshares resulting in Mid-State Bancshares becoming a wholly owned subsidiary of VIB Corp. Immediately thereafter, Mid-State Bancshares will be merged with and into VIB Corp and following the merger of Mid-State Bancshares and VIB Corp, Mid-State Bank & Trust will be merged with and into Rabobank, N.A., the California-headquartered banking subsidiary of VIB Corp. As a result of such mergers, Mid-State Bancshares and Mid-State Bank & Trust will both cease to exist. These mergers are governed by the Agreement and Plan of Merger, dated November 1, 2006 (the merger agreement). A copy of the merger agreement is attached as Appendix A. Throughout this document, these various mergers are referred to simply as the merger.

Q: Why is the merger proposed?

A: Mid-State is proposing the merger because its board of directors believes that the merger is in the best interests of its shareholders. Mid-State believes that the price to be paid in the merger is fair.

Q: What are Mid-State's shareholders being asked to approve?

A: Mid-State's shareholders are being asked to approve the principal terms of the merger agreement and the transactions contemplated thereby, which approval must be obtained before the merger can be consummated.

Q: What should I do now?

A: Simply indicate your vote on your proxy card and then sign and mail your proxy card in the enclosed return envelope in time to be represented at the special shareholder's meeting. You will also be able to vote by telephone or by the Internet. The enclosed proxy card explains more about these voting procedures.

If you are a Mid-State shareholder, do not send your Mid-State stock certificates in the envelope provided for returning your proxy card. The stock certificates should only be forwarded to the exchange agent with the letter of transmittal form which will be mailed to you separately.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares for you only if you provide your broker with instructions on how to vote. You should instruct your broker how to vote your shares, following the directions your broker provides. If you fail to instruct your broker how to vote your shares, your broker may not vote your shares and the effect will be the same as a vote against the merger.

Q: What happens if I don't vote?

A: If you fail to respond, your shares will not be counted to help establish a quorum at Mid-State's special meeting. Not voting also has the same effect as voting against the merger.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. If your shares are held in your name you may do this in one of three ways:

- Send a written notice to the Secretary of Mid-State stating that you are revoking your proxy;
- Complete and submit a new proxy card bearing a later date; or
- Attend the special meeting and vote in person (but only if you tell the Secretary before the voting begins that you want to cancel your proxy and vote in person). Simply attending the meeting, however, will not revoke your proxy.

If you choose either of the first two methods, you must submit your notice of revocation or your new proxy card to Mid-State at the address below.

Unless you decide to attend the meeting and vote your shares in person after you have submitted voting instructions to the proxies, we recommend that you revoke or amend your prior instructions in the same way you initially gave them—that is, by telephone, Internet, or in writing. This will help to ensure that your shares are voted the way you have finally determined you wish them to be voted.

If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote or to vote at the annual meeting.

Q: What is the vote needed to approve the merger?

A: Approval of the merger requires the affirmative vote of the holders of at least a majority of the shares of Mid-State common stock issued and outstanding on the record date.

Q: Who can help answer my questions?

A: If you have more questions about the merger or the special meeting, you should contact:

Mid-State Bancshares
Attn: Marlene Weeks, Vice President
P.O. Box 6002
Arroyo Grande, California 93420
(805) 473-6829

SUMMARY

This brief summary, together with the Questions and Answers on the preceding pages, highlights selected information from the proxy statement. This summary does not contain all of the information that is important to you. We urge you to read carefully the entire proxy statement and the other documents that are incorporated herein to understand fully the merger. See Where You Can Find More Information beginning on page [*]. Unless we have stated otherwise, all references in this document to Mid-State, we, our or us are to Mid-State Bancshares; all references to Rabobank Nederland are to Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland; all references to Rabobank, N.A. are to Rabobank, National Association; all references to Rabobank are to Rabobank Nederland and its affiliates; all references to the merger are to the merger of Chardonnay Merger Sub Corp. with and into Mid-State; all references to the merger agreement are to the Agreement and Plan of Merger by and among Mid-State, VIB Corp and Chardonnay Merger Sub Corp., dated as of November 1, 2006, a copy of which is attached as Appendix A to this document. Certain items in this summary contain a page reference directing you to a more complete description of that item.

The Companies

Mid-State Bancshares

Mid-State is the parent company of Mid-State Bank & Trust, its 100% owned principal subsidiary. Mid-State is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System.

Mid-State Bank & Trust was incorporated under the laws of the State of California and commenced operations on June 12, 1961 as a California state chartered bank. The Bank's accounts are insured by the Federal Deposit Insurance Corporation, but it is not a member of the Federal Reserve System. At September 30, 2006, Mid-State had total assets of approximately \$2.4 billion, total deposits of \$2.0 billion and total shareholders' equity of \$267 million.

The Bank operates 41 full service retail-banking offices along the central coast of California in Santa Barbara, San Luis Obispo and Ventura counties. Mid-State's and the Bank's headquarters are located in Arroyo Grande. The headquarters' street address is 1026 East Grand Avenue, Arroyo Grande, CA 93420. Its mailing address is P.O. Box 6002, Arroyo Grande, CA 93421-6002. The telephone number is: (805) 473-6829. Mid-State can also be reached through its internet address at www.midstatebank.com.

Important information concerning Mid-State's business and financial information is incorporated herein by reference in accordance with SEC rules. See Where You Can Find More Information beginning on page [*] to find out how you can obtain this information.

VIB Corp

VIB Corp, a California corporation and a registered bank holding company under the Bank Holding Company Act of 1956, as amended, was organized in 1997 with its headquarters in El Centro, California, to serve as the holding company for Valley Independent Bank, a California banking corporation. In December 2002, VIB Corp was acquired by an indirect U.S. subsidiary of Rabobank Nederland, and in early 2005 Valley Independent Bank, a wholly owned bank subsidiary of VIB Corp, converted from a state chartered bank to a national chartered bank and changed its name to Rabobank, N.A.

Chardonnay Merger Sub Corp., a California corporation and a wholly owned subsidiary of VIB Corp, has been organized by VIB Corp for the sole purpose of facilitating the merger. Merger Sub will disappear upon consummation of the merger.

Utrecht-America Holdings, Inc. is an indirect subsidiary of Rabobank Nederland, a cooperative banking association organized under the laws of the Netherlands. As of June 30, 2006, Rabobank Nederland had consolidated assets of approximately 521 billion Euros. In the United States, Rabobank Nederland currently operates a state-licensed branch in New York, and representative offices in California, Georgia, Illinois, Texas, and Washington, D.C. Through these offices, Rabobank Nederland offers corporate banking services, primarily for the food and agriculture industry. U.S.-based subsidiaries of Rabobank Nederland offer leasing, agricultural and vendor financing, and a wide range of investment and advisory products. Rabobank Nederland is represented internationally with over 289 offices in 38 countries outside the Netherlands and offers a broad range of financial, insurance and asset management services across retail, corporate and commercial sectors. Rabobank Nederland is one of the largest banking organizations in the Netherlands and the largest mortgage lending and savings organization in the Netherlands by market share. It is one of the 25 largest banking institutions in the world in terms of assets, and enjoys one of the highest credit ratings of any financial institution in the world.

Originally organized in 1980 as a state-chartered bank, Rabobank, N.A. is a wholly owned subsidiary of VIB Corp. Rabobank, N.A. is headquartered in El Centro, California. Following the merger of Community Bank of Central California with and into Rabobank, N.A., which was consummated in January, 2006, Rabobank, N.A. now operates 41 branches located from California's Mexican border to the greater Sacramento metropolitan area. Rabobank, N.A. offers a wide range of commercial banking services including agricultural, commercial, U.S. Small Business Administration, real estate, construction, and consumer loans; checking, savings, NOW, money market, online banking and time deposits; and travelers' checks, credit cards, and other customary non-deposit banking services. Rabobank, N.A. acts as a merchant depository for cardholder drafts and also operates several loan production offices. As of September 30, 2006, Rabobank, N.A. had assets of approximately \$4.8 billion.

The Merger (Page and Appendix A)

It is proposed that Mid State Bancshares and Mid-State Bank & Trust be acquired by VIB Corp in a series of mergers. Initially, VIB Corp (which is owned and controlled by Rabobank) will cause its wholly owned subsidiary, Chardonnay Merger Sub Corp., to be merged with and into Mid-State resulting in Mid-State becoming a wholly owned subsidiary of VIB Corp. Immediately thereafter, Mid-State will be merged with and into VIB Corp and immediately after the merger of Mid-State with and into VIB Corp, Mid-State Bank & Trust will be merged with and into Rabobank, N.A. As a result of these mergers, Mid-State and Mid-State Bank & Trust will both cease to exist. The acquisition of Mid-State by VIB Corp is governed by the merger agreement. A copy of the merger agreement is attached as Appendix A. Throughout this document, these various mergers are referred to as simply the merger.

Pursuant to the merger agreement, Mid-State's shareholders will receive \$37.00 in cash for each share of Mid-State common stock they own.

The closing date will occur as soon as practicable after (i) the satisfaction or waiver of all conditions in the merger agreement, which are summarized below beginning on page [*], and (ii) receipt of approval of all required regulatory agencies. For a discussion of the required regulatory approvals, see The Merger Regulatory Approvals Required beginning on page [*]. However, the closing date may be set on any other date on which the parties mutually agree. We are working toward completing the merger as quickly as possible. We currently expect to complete the merger during the second quarter of 2007 or as soon thereafter as possible, assuming all conditions set forth in the merger agreement are satisfied or waived.

The Special Meeting (Pages)

Date, Time and Place. Mid-State s special meeting of shareholders will be held at [*] p.m. on [*], 2007, at [*].

Purpose of the Special Meeting. At this special meeting, Mid-State s shareholders will be asked to approve the principal terms of the merger agreement and the transactions contemplated thereby.

Record Date; Shareholders Entitled to Vote. You are entitled to vote at the Mid-State special meeting if you owned Mid-State common stock as of the record date, [*], 2007. As of that date, there were [*] shares of Mid-State outstanding, held by [*] shareholders of record. Each holder of Mid-State common stock is entitled to one vote per share on all matters that may properly come before the meeting.

Vote Required. Approval of the principal terms of the merger agreement and the transactions contemplated thereby requires the affirmative vote of at least a majority of the outstanding shares of Mid-State common stock. Not voting, voting abstain or failing to instruct your broker how to vote shares held for you in the broker s name will have the same effect as voting against the merger. If you submit a signed proxy card without indicating a vote with respect to the merger, that proxy card will be deemed a vote in favor of the principal terms of the merger agreement and the transactions contemplated thereby.

At close of business on the record date, certain of the directors and officers of Mid-State beneficially owned, in the aggregate, approximately [*] shares of Mid-State common stock, allowing them to exercise approximately [*]% of the voting power of Mid-State common stock entitled to vote at the Mid-State special meeting (which does not include shares issuable upon the exercise of stock options but not outstanding as of the record date). Certain of these persons have agreed to vote these shares in favor of the principal terms of the merger agreement and the transactions contemplated thereby, as more fully described in The Merger Interests of Certain Persons in the Merger beginning on page [*].

Our Board of Directors Recommends that the Shareholders Approve the Merger (Pages -)

Recommendation. Mid-State s board of directors has determined that the merger and the merger agreement are advisable and fair to, and in the best interests of Mid-State and its shareholders and recommends that Mid-State s shareholders vote **FOR** the merger agreement and the transactions contemplated thereby.

Factors Considered by Our Board. In determining whether to approve the merger, our board of directors consulted with our senior management and legal and financial advisors and considered the strategic, financial and other considerations referred to under The Merger Recommendation of, and Factors Considered by, Mid-State s Board of Directors.

Financial Advisor Gives Opinion That Merger Consideration Is Fair from a Financial Point of View (Page and Appendix B)

Mid-State s financial advisor, Sandler O Neill + Partners, L.P. (Sandler O Neill), has provided an opinion to Mid-State s board of directors, dated as of November 1, 2006, that subject to and based on the considerations referred to in its opinion, the merger consideration of \$37.00 per share in cash was fair to Mid-State s shareholders from a financial point of view. Sandler O Neill confirmed its November 1, 2006 opinion by delivering a written opinion as of the date of this proxy statement. The full text of Sandler O Neill s updated opinion, dated [*], 2006, which includes a copy of the original opinion, is attached as Appendix B to this proxy statement. Mid-State urges its shareholders to read that opinion in its entirety.

Tax Effects of the Transaction (Page)

In general, the exchange of Mid-State common stock for cash pursuant to the merger will be a taxable transaction for federal income tax purposes and may also be a taxable transaction under applicable state, local and foreign tax laws. We recommend that you read the discussion in this proxy statement regarding federal income tax consequences and consult your tax advisor to determine the specific tax consequences to you of the receipt of cash in connection with the merger.

Benefits to Certain Officers and Directors in the Merger (Page)

When considering the recommendation of the Mid-State board of directors, you should be aware that some Mid-State directors and officers have interests in the merger that differ from the interests of other Mid-State shareholders. These interests include:

- certain officers and directors have stock options that will become exercisable in full at the time of the merger;
- James W. Lokey, the President and Chief Executive Officer of Mid-State and Mid-State Bank, has entered into an employment agreement with Mid-State Bank, which will be effective upon the closing of the merger. Following the merger, Rabobank, N.A. will succeed Mid-State Bank as a party to the employment agreement, and Mr. Lokey will become a President of Rabobank, N.A.
- Lori Anderson, John Arellano, Jeff DeVine, John Ferebee, Mike Gibson, Steve Harding, Naomi Kinney, Stuart McCoy, Paul Mistele, Jeff Paul, Brantley Pettigrew, Dave Rounds, Leslie Love Stone, Debbie Zimmer, Roger Hagera and Eldon Shiffman, Sandy Ferris, Don Nielsen, Clarence Cabrerros, Linda Minton, John McNinch, Dan Snowden, William Racine, Scott Laycock, Mike Monroe, and Kiersten Alfieri, each a director or officer of Mid-State, have entered into retention agreements with Mid-State, which will be of no further effect in the event the merger is not consummated;
- directors and officers have continuing liability insurance protection and indemnification protections;
- certain executive officers of Mid-State will receive payments in settlement of certain change-in-control agreements upon consummation of the merger;
- Carrol Pruet, the Chairman of Mid-State's board, will receive change-in-control payments upon consummation of the merger; and
- Mr. Pruet and Mr. Lokey, Mid-State board members, will become members of the Rabobank, N.A., board of directors after the closing of the merger.

See The Merger Interests of Certain Persons in the Merger beginning on page [*]. Mid-State's board of directors was aware of these interests and considered them before approving the merger agreement.

Things We Must Do for the Merger to Occur (Page)

Completion of the merger is subject to various conditions, including:

- approval of the principal terms of the merger agreement and the transactions contemplated thereby by Mid-State's shareholders;
- receipt of all governmental and other consents and approvals that are necessary under the merger agreement; and
- other customary conditions.

Certain of these customary conditions to the merger may be waived by the parties under the merger agreement.

Regulatory Approvals Needed (Page)

We cannot complete the merger unless it is approved by the Comptroller of the Currency and the Board of Governors of the Federal Reserve System. We and Rabobank expect to file applications with the Comptroller of the Currency and the Federal Reserve by the end of 2006. Rabobank does not expect the existence of the memorandum of understanding it entered into with the Comptroller of the Currency to prevent the receipt of the required regulatory approvals and it is taking steps to address the deficiencies identified in the memorandum of understanding in accordance with its terms. See The Merger Regulatory Approvals Required beginning on page [*].

We cannot be certain when or if we will obtain these regulatory approvals.

Litigation Relating to the Merger (Page)

A purported shareholder of Mid-State has filed a complaint seeking class action status against Mid-State and each of its directors alleging, among other things, that the Mid-State directors breached their fiduciary duties with regard to the proposed merger. Among other things, the complaint seeks class action status, a court order enjoining Mid-State and its directors from proceeding with or consummating the merger, and the payment of attorneys' and experts' fees. Mid-State intends to defend this lawsuit vigorously.

Termination of the Merger Agreement (Page)

The merger agreement may be terminated prior to the effective time of the merger for a variety of reasons, including by either party if the merger has not occurred by November 1, 2007, or if the other party breaches the agreement.

Termination Fees (Page)

Certain cash payments may be required of Mid-State under the merger agreement in the event a party terminates the merger agreement in certain situations, including a payment by Mid-State to VIB Corp of \$27.5 million if, among other things, Mid-State terminates the merger to pursue a superior proposal.

Dissenting Shareholders' Rights (Page and Appendix C)

Shareholders of Mid-State will not have dissenting shareholders' rights in the merger unless demands for payment are filed with respect to 5% or more of the outstanding shares. The text of the applicable provisions of California law relating to dissenting shareholders' rights is attached as Appendix C.

Trading Price and Dividend Information

Mid-State common stock is listed on the NASDAQ Global Market System under the symbol MDST. The following table sets forth the high and low sales prices per share of Mid-State common stock as reported on the NASDAQ Global Market System from January 1, 2005 through December 14, 2006:

Quarter	High	Low
2005:		
First quarter	\$ 28.89	\$ 25.80
Second quarter	\$ 28.94	\$ 24.00
Third quarter	\$ 31.29	\$ 26.70
Fourth quarter	\$ 29.61	\$ 25.84
2006:		
First quarter	\$ 29.80	\$ 27.12
Second quarter	\$ 29.74	\$ 25.85
Third quarter	\$ 28.36	\$ 26.05
Fourth quarter (through December 14, 2006)	\$ 36.52	\$ 26.72
2007:		
First quarter (through [*, 2007)		

The following table sets forth the per share amount and month of payment for all cash dividends paid since January 1, 2005 by Mid-State to its shareholders.

Payable Date	Dividend
January 14, 2005	\$ 0.16 per share
April 15, 2005	\$ 0.16 per share
July 15, 2005	\$ 0.16 per share
October 14, 2005	\$ 0.16 per share
January 17, 2006	\$ 0.18 per share
April 17, 2006	\$ 0.18 per share
July 17, 2006	\$ 0.18 per share
October 16, 2006	\$ 0.18 per share

The merger agreement provides that Mid-State may continue to pay regular quarterly dividends provided that such dividends shall not exceed \$0.18 per quarter. However, if the merger has not been consummated by April 30, 2007, Mid-State may pay dividends of an aggregate of \$0.36 per share for the second quarter of 2007 and, if the merger has not been consummated by July 31, 2007, Mid-State may pay dividends of an aggregate of \$0.36 per share for the third quarter of 2007.

THE SPECIAL MEETING

Proxy Statement

This proxy statement is being furnished to you in connection with the solicitation of proxies by Mid-State's board of directors in connection with its special meetings of shareholders.

This proxy statement is first being furnished to shareholders on or about _____, 2007.

Date, Time and Place of the Special Meetings

The special meeting is scheduled to be held as follows:

[*]

Purpose of the Special Meeting

At the Mid-State special meeting, Mid-State's shareholders will be asked to consider and vote upon a proposal to approve the principal terms of the merger agreement and the transactions contemplated thereby.

Record Date

Mid-State's board of directors has selected the close of business on [*], 2007 as the record date for the determination of shareholders entitled to notice of, and to vote at, our special meeting. At that date, there were [*] outstanding shares of Mid-State common stock entitled to vote at Mid-State's special meeting.

Votes Required

The required quorum for the transaction of business at the Mid-State special meeting is a majority of the shares of Mid-State's common stock entitled to vote at the special meeting. The affirmative vote of holders of a majority of the shares of Mid-State common stock outstanding on the record date is required to adopt the merger agreement. Shares voted on a matter are treated as being present for purposes of establishing a quorum. Abstentions and broker non-votes (as described below) will be counted for determining a quorum, but will not be counted for purposes of determining the number of votes cast FOR or AGAINST any matter.

Proxies

All shares of Mid-State common stock represented by properly executed proxies received before or at the special meeting will, unless revoked, be voted in accordance with the instructions indicated on those proxies. If no instructions are indicated on a properly executed proxy card, the shares will be voted **FOR** approval of the merger. If you return a properly executed proxy card and have identified that you have abstained from voting, your Mid-State common stock represented by the proxy will be considered present at the special meeting for purposes of determining a quorum, but will be considered a vote against the merger. We urge you to mark the applicable box on the proxy card to indicate how to vote your shares.

If you hold your shares in your own name as a holder of record, you may instruct the proxies how to vote your common stock by using the toll free telephone number or the Internet voting site listed on the proxy card or by signing, dating, and mailing the proxy card in the postage paid envelope that we have provided to you. Of course, you can always come to the meeting and vote your shares in person. Specific instructions for using the telephone and Internet voting systems are on the proxy card.

If your shares are held in an account at a broker or a bank, you must instruct the broker or bank how to vote your shares. If an executed proxy returned by a broker or a bank holding shares indicates that the broker or bank does not have discretionary authority to vote on a particular matter, the shares will be

considered present at the meeting for purposes of establishing a quorum, but will be considered a vote against the proposals. This is called a broker non-vote. Your broker or bank will vote your shares only if you provide instructions on how to vote by following the instructions provided to you by your broker or bank.

Because approval of the principal terms of the merger agreement and the transactions contemplated thereby by Mid-State requires the affirmative vote of a majority of the outstanding shares of Mid-State, abstentions, failures to vote and broker non-votes will have the same effect as a vote against the merger.

Mid-State does not expect that any matter other than the proposal to approve the principal terms of the merger agreement and the transactions contemplated thereby and the proposal to approve, if necessary, an adjournment of the special meeting to solicit additional proxies in favor of the principal terms of the merger agreement and the transactions contemplated thereby will be brought before its special meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their judgment with respect to those matters, unless you withhold authority to do so on the proxy card or voting instruction card.

You may revoke a proxy at any time before it is voted by:

- filing with the secretary of Mid-State at 1026 East Grand Avenue, Arroyo Grande, CA 93420 an instrument revoking the proxy;
- returning a duly executed proxy bearing a later date; or
- attending the special meeting and voting in person, provided you notify the Secretary of Mid-State before voting begins that you are revoking your proxy and voting in person. Attendance at the special meeting will not by itself constitute revocation of a proxy.

Unless you decide to attend the meeting and vote your shares in person after you have submitted voting instructions to the proxies, we recommend that you revoke or amend your prior instructions in the same way you initially gave them that is, by telephone, Internet, or in writing. This will help to ensure that your shares are voted the way you have finally determined you wish them to be voted.

Solicitation of Proxies

In addition to soliciting proxies by mail, each of our officers, directors and employees, without receiving any additional compensation, may solicit proxies by telephone or fax, in person or by other means. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries to forward proxy solicitation materials to the beneficial owners of our common stock held of record by such persons, and such brokerage firms, custodians, nominees and fiduciaries will be reimbursed for reasonable out-of-pocket expenses incurred by them in connection therewith. Mid-State will pay all expenses related to printing and filing this proxy statement.

Do not send your Mid-State stock certificates in the envelope provided for returning your proxy card. The stock certificates should only be forwarded to the exchange agent with the letter of transmittal form which will be mailed to you separately.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the record date, no person known to Mid-State owned more than five percent of the outstanding shares of its common stock.

The following table sets forth information as of the record date concerning the beneficial ownership of Mid-State's directors and executive officers and VIB Corp. Mid-State has only one class of shares outstanding, common stock. All information with respect to beneficial ownership is based on filings made by the respective beneficial owners with the SEC or information provided to Mid-State by such beneficial owners.

Name, Title and Address of Beneficial Owner(1)				Amount and Nature of Beneficial Ownership(2),(3)			Percent of Class(3)	
George H. Andrews								
Director								
Trudi G. Carey								
Director								
Daryl L. Flood								
Director								
H. Edward Heron								
Director								
James W. Lokey								
President/CEO								
Stephen P. Maguire								
Director								
Michael Miner								
Director								
Gregory R. Morris								
Director								
Carrol R. Pruett								
Chairman of the Board								
Alan Rains								
Director								
Harry H. Sackrider								
Executive Vice President/CCO								
James G. Stathos								
Executive Vice President/CFO								
Directors and Executive Officers as a group (12 persons)								
VIB Corp(4)								

1. The address for all persons listed is c/o Mid-State Bancshares, 1026 East Grand Avenue, Arroyo Grande, California 93420.

2. Except as otherwise noted, includes shares held by each person's spouse and minor children; shares held by any other relative of such person who has the same home; shares held by a family trust as to which such person is a trustee with sole voting and investment power (or shares power with a spouse); or shares held in an individual retirement account as to which such person has pass-through voting rights and investment power.

3. Includes shares of common stock with respect to which such beneficial owner has the right to acquire beneficial ownership as specified in Rule 13d-(3)(1).

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4. VIB Corp may be deemed to have beneficial ownership of the Mid-State common stock held by the signatories to certain voting and support agreements it entered into with each of Carrol R. Pruett, James W. Lokey, Daryl L. Flood, Gregory R. Morris, H. Edward Heron, Stephen P. Maguire, Alan Rains, George H. Andrews, James G. Stathos and Harry Sackrider. As indicated in its Schedule 13D filed with the SEC on November 9, 2006, however, no shares of Mid-State's common stock were purchased by VIB Corp pursuant to the Voting Agreements and VIB Corp disclaims beneficial ownership of all such shares. See The Merger Interests of Certain Persons in the Merger Voting Agreements beginning on page .

THE MERGER

Background of the Merger

From time to time, our board of directors has considered the business environment facing financial institutions generally and Mid-State in particular, as well as conditions and ongoing consolidation in the financial services industry. In connection therewith, our board of directors has discussed various strategic alternatives to enhance and to maximize shareholder value. These strategic alternatives have included continuing as an independent institution, establishing or acquiring additional branch offices and other financial institutions or complementary businesses, repurchasing our common stock, and entering into a strategic merger with a similarly-sized or larger institution. Mid-State's board of directors has also recognized that, at some point, the sale of Mid-State Bancshares might be in the best interests of our shareholders. These evaluations were based on reviews of current and projected market conditions, reported business combination transactions and results of operations of Mid-State. Such reviews included the assistance of financial advisors from time to time.

In January, at the request of Rabobank, Mid-State's Chairman of the Board and CEO met with Rabobank representatives to discuss Rabobank's history and its plans to further expand in the California market. During the meeting Rabobank expressed a possible interest in exploring an acquisition of Mid-State. Mid-State conveyed to Rabobank that it was not actively pursuing a sale of the company and was, in fact, exploring its own acquisition opportunities.

Representatives of Sandler O'Neill, Mid-State's financial advisor, met with Mid-State's Chairman and CEO in February, to discuss the company's performance and potential strategic initiatives. At that meeting, Rabobank's interest in Mid-State was discussed as well as Rabobank's recently completed acquisition in California and its continued interest in expanding in the state.

In March, Mid-State's board met for strategic planning purposes. Among other subjects, potential acquisition targets for Mid-State were discussed as well as institutions that might have an interest in acquiring Mid-State. The CEO briefed the board members on developments with Mid-State's acquisition targets. Additionally, the board discussed what Mid-State's reaction should be if an acquiror were to make an unsolicited offer for Mid-State. The board reiterated its position that Mid-State was not actively pursuing a sale of the company, but that, if an attractive offer was received, it would need to be considered.

In April, at the request of Rabobank, Mid-State's Chairman and CEO and representatives of Sandler O'Neill met with representatives of Rabobank and held further discussions regarding a possible acquisition by Rabobank. Mid-State again conveyed to Rabobank that it was not actively pursuing a sale of the company and was, in fact, exploring its own acquisition opportunities.

In May, a representative of Rabobank indicated to Mid-State's Chairman that Rabobank's board of directors had been consulted and had a high level of interest in pursuing an acquisition of Mid-State.

At the May 17, 2006 meeting of the Mid-State board of directors, the status of Mid-State acquisition prospects was again discussed. The board was also briefed on the meetings with the Rabobank representatives. The board also re-visited the subject of the possibility of an unsolicited offer from an acquiror, as well as Mid-State's competitive position, earnings estimates and stock values. Following these

discussions, the Mid-State board authorized Mid-State management to expand preliminary discussions with Rabobank in order to gauge in greater detail the potential benefits of a possible business combination between the parties.

In June at Rabobank's request, Mid-State's Chairman and CEO met with Rabobank representatives in New York. Mid-State and Rabobank entered into a confidentiality agreement. Following that meeting, Rabobank proposed an all cash acquisition of Mid-State at \$32.00 per share. The board of directors considered the proposal and instructed its financial advisor, Sandler O'Neill to communicate to Rabobank that the proposal was inadequate.

At the Mid-State board meeting on July 19, 2006, the status of a potential transaction with Rabobank was again discussed. Also discussed were the strategic challenges facing Mid-State, including shrinking margins, increased competition, slower deposit growth, enhanced regulatory burdens, an uncertain economy and its own uncertain expansion plans.

Discussions continued throughout July and concluded with Rabobank putting forth a proposal of \$37.00 per share in cash which Mid-State's board of directors indicated that it was willing to support. The board of directors invited Rabobank to proceed forward with due diligence.

In early August, a special meeting of the board was held with the Company's financial advisor and counsel in attendance. At that meeting, Rabobank's most recent proposal was discussed in detail, including a presentation by Mid-State's financial advisor. After deliberation, the board agreed to proceed towards the negotiation of a definitive merger agreement.

During September, the parties and their outside counsel began preliminary drafting of the merger agreement and related transaction documents. Mid-State's board were periodically updated by both the CEO and Chairman on the proposed merger agreement and possible resolutions of related issues.

In the course of mutual due diligence, Rabobank disclosed that Rabobank, N.A., its California headquartered banking subsidiary, had entered into a memorandum of understanding on July 25, 2006 with the Comptroller of the Currency, the federal banking agency regulating Rabobank, N.A., agreeing to take action to correct deficiencies in its Bank Secrecy Act compliance program and in certain other practices. As a result of such disclosure, Mid-State employed the law firm of Wachtell, Lipton, Rosen & Katz to assist in an evaluation of the impact of the deficiencies identified in the memorandum of understanding on Rabobank's ability to obtain required regulatory approvals on a timely basis.

On November 1, 2006, a special meeting of Mid-State's board of directors was held. All the directors were present except for one director who was traveling. Mid-State's legal counsel, Reitner, Stuart & Moore, reviewed the legal aspects of the merger, the terms and provisions of the merger agreement and the directors' duties and responsibilities in connection with the proposed transaction. Mid-State's special counsel, Wachtell, Lipton, Rosen & Katz, reviewed the regulatory issues surrounding Rabobank and discussed their possible impact on the merger and the merger agreement. Sandler O'Neill reviewed the financial aspects of the merger and delivered its opinion that the consideration to be received by the Mid-State shareholders in the merger was fair to those shareholders from a financial point of view.

Following these discussions, and review and discussion among the members of the Mid-State board of directors, including consideration of the factors described under Recommendation of, and Factors Considered by, Mid-State's Board of Directors the Mid-State board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Mid-State and its shareholders, and the directors present at the meeting voted unanimously to approve the merger with Rabobank and to approve and adopt the definitive merger agreement.

The merger agreement was executed on the evening of November 1, 2006, by the parties and the merger was publicly announced before the opening of the markets on November 2, 2006.

Recommendation of, and Factors Considered by, Mid-State's Board of Directors

Mid-State's board of directors believes that the terms of the merger are advisable and fair to, and are in the best interests of, Mid-State and its shareholders and recommends that the shareholders of Mid-State vote FOR the approval of the principal terms of the merger agreement and the transactions contemplated thereby.

At a meeting of Mid-State's board of directors on November 1, 2006, after due consideration, Mid-State's board:

- determined that the merger agreement and the merger are fair and in the best interests of Mid-State and its shareholders; and
- approved the merger agreement.

In reaching its conclusion to proceed with the merger, Mid-State's board of directors considered information and advice from several specialists, including investment bankers and legal counsel. All material facts considered by Mid-State's board of directors have been disclosed in this proxy statement. In approving the merger agreement, Mid-State's board of directors considered a number of factors, including the following:

- the \$37.00 cash consideration provided for in the merger agreement represents fair consideration and offers a significant premium over the historical trading range of Mid-State;
- the terms of the merger agreement and other documents to be executed in connection with the merger, including the closing conditions and termination rights, are fair;
- the current and prospective economic environment, including declining net interest margins for many financial institutions, slower deposit growth, increased competition for loans, increasing regulatory and competitive burdens and constraints facing financial institutions generally, the uncertainty of Mid-State's own acquisition opportunities and the likely effect of these factors on Mid-State on both a stand-alone basis and in the context of the proposed merger;
- the consolidation occurring in the banking industry and the increased competition from other financial institutions in Mid-State's market areas;
- Mid-State's board's review, with its financial advisors, of alternatives to the merger, the range and possible value to Mid-State's shareholders obtainable through such alternatives and the timing and likelihood of such alternatives;
- Mid-State's board's concern that, if Mid-State remained independent, the anticipated value of its common stock in the future, discounted to present value, would not equal or exceed the cash amount that its shareholders will receive upon completion of the merger; and
- the financial analysis and presentation of Mid-State's investment banking firm and its opinion that the merger consideration to be received is fair, from a financial point of view, to Mid-State's shareholders.

Mid-State's board of directors also identified and considered a number of risks and uncertainties in its deliberations concerning the merger, but concluded that the anticipated benefits of the merger outweighed these risks. The risks included:

- the possible disruption to Mid-State's business that may result from the announcement of the transaction and the resulting distraction of its management's attention from the day-to-day operations of Mid-State's business;

- the restrictions contained in the merger agreement on the operation of Mid-State's business during the period between the signing of the merger agreement and the completion of the merger;
- the regulatory issues facing Rabobank and their potential impact on the merger or its timing;
- the termination fee to be paid by Mid-State if the merger agreement is terminated under certain circumstances; and
- the possibility that the merger might not be completed and the effect of the resulting public announcement of the termination of the merger agreement on, among other things, Mid-State's operating results, particularly in light of the costs incurred in connection with the transaction.

Although each member of Mid-State's board of directors individually considered these and other factors, Mid-State's board of directors did not collectively assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. Mid-State's board collectively made its determination based on the conclusion reached by its members, in light of the facts that each of them considered appropriate, that the merger is in the best interests of Mid-State and its shareholders.

At the November 1, 2006 meeting, Mid-State's board of directors voted unanimously, with one director absent, to approve the merger agreement.

Mid-State's board of directors realized that there can be no assurance about future results, including results expected or considered in the factors listed above. However, Mid-State's board of directors concluded that the potential positive factors outweighed the potential risks of completing the merger.

For the reasons set forth above, Mid-State's board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of Mid-State and its shareholders, and approved the merger agreement and the transactions contemplated thereby. Mid-State's board of directors recommends that Mid-State's shareholders vote FOR the approval of the principal terms of the merger agreement and the transactions contemplated thereby.

Fairness Opinion

By letter dated July 24, 2006, Mid-State retained Sandler O'Neill to act as its financial advisor in connection with a possible business combination with a second party. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as financial advisor to Mid-State in connection with the proposed merger and participated in certain of the negotiations leading to the merger agreement. At the November 1, 2006 meeting at which Mid-State's board considered and approved the merger agreement, Sandler O'Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the per share merger amount of \$37.00 per share was fair to Mid-State's shareholders from a financial point of view. Sandler O'Neill has confirmed its November 1, 2006 opinion by delivering to the board of Mid-State a written opinion dated as of the date of this proxy statement. In rendering its updated opinion, Sandler O'Neill confirmed the appropriateness of its reliance on the analyses used to render its earlier opinion by reviewing the assumptions upon which its analyses were based, performing procedures to update certain of its analyses and reviewing the other factors considered in rendering its opinion. **The full text of Sandler O'Neill's updated opinion is attached as Appendix B to this proxy statement. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the**

review undertaken by Sandler O Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Sandler O Neill urges Mid-State shareholders to read the entire opinion carefully in connection with their consideration of the proposed merger.

Sandler O Neill's opinion speaks only as of the date of the opinion. The opinion was directed to the Mid-State board and is directed only to the fairness of the per share merger amount of \$37.00 per share to Mid-State shareholders from a financial point of view. It does not address the underlying business decision of Mid-State to engage in the merger or any other aspect of the merger and is not a recommendation to any Mid-State shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter.

In connection with rendering its November 1, 2006 opinion, Sandler O Neill reviewed and considered, among other things:

- (1) the merger agreement;
- (2) certain publicly available financial statements and other historical financial information of Mid-State that Sandler O Neill deemed relevant;
- (3) certain publicly available financial statements and other historical financial information of VIB Corp, Rabobank, N.A. and Rabobank Nederland that Sandler O Neill deemed relevant in determining VIB Corp's financial capacity to undertake the merger;
- (4) internal financial projections for Mid-State as provided by, and reviewed with, senior management of Mid-State;
- (5) to the extent publicly available, the financial terms of certain recent business combinations in the commercial banking industry;
- (6) the current market environment generally and the banking environment in particular; and
- (7) such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O Neill considered relevant.

Sandler O Neill also discussed with certain members of senior management of Mid-State the business, financial condition, results of operations and prospects of Mid-State.

In performing its reviews and analyses, Sandler O Neill relied upon the accuracy and completeness of all of the financial and other information that was available to it from public sources, that was provided by Mid-State and VIB Corp or their respective representatives, or that was otherwise reviewed by Sandler O Neill and have assumed such accuracy and completeness for purposes of rendering the opinion. Sandler O Neill further relied on the assurances of management of Mid-State and VIB Corp that they were not aware of any facts or circumstances that would make any of the information provided by Mid-State and VIB Corp, respectively, inaccurate or misleading. Sandler O Neill has not been asked to undertake, and has not undertaken, an independent verification of any of such information and Sandler O Neill does not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Mid-State or VIB Corp or any of their subsidiaries, or the collectibility of any such assets, nor has Sandler O Neill been furnished with any such evaluations or appraisals. Sandler O Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Mid-State or VIB Corp nor has Sandler O Neill reviewed any individual credit files relating to Mid-State or VIB Corp. Sandler O Neill assumed, with Mid-State's consent, that the respective allowances for loan losses for both Mid-State and VIB Corp are adequate to cover such losses.

Sandler O Neill's opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Sandler O Neill assumed, in all respects

material to its analysis, that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived. Sandler O'Neill also assumed, with Mid-State's consent, that there has been no material change in Mid-State's, VIB Corp's, Rabobank, N.A.'s and Rabobank Nederland's assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to them and that Mid-State and VIB Corp will remain as going concerns for all periods relevant to its analyses. Finally, with Mid-State's consent, Sandler O'Neill relied upon the advice received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger agreement and the other transactions contemplated by the merger agreement.

In rendering its November 1, 2006 opinion, Sandler O'Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O'Neill, but is not a complete description of all the analyses underlying Sandler O'Neill's opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Mid-State and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Mid-State or VIB Corp and the companies to which they are being compared.

The internal projections used and relied upon by Sandler O'Neill in its analyses for Mid-State were reviewed with the senior management of Mid-State who confirmed to Sandler O'Neill that those projections reflected the best currently available estimates and judgments of such managements of the future financial performance of Mid-State. With respect to the projections used in its analyses, Sandler O'Neill assumed that financial performance reflected in those projections would be achieved. Sandler O'Neill expressed no opinion as to such projections or the assumptions on which they were based. These projections, as well as the other estimates used by Sandler O'Neill in its analyses, were based on numerous variables and assumptions which are inherently uncertain and, accordingly, actual results could vary materially from those set forth in such projections.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Mid-State, VIB Corp, Rabobank, N.A., Rabobank Nederland and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Mid-State board at the board's November 1, 2006 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of Mid-State's common stock or the price at which Mid-State's common stock may be sold at any time.

Summary of the Merger. Sandler O Neill reviewed the financial terms of the merger agreement. Using the \$37.00 cash price for each share of Mid-State common stock and based upon per-share financial information for Mid-State for the twelve months ended September 30, 2006, Sandler O Neill calculated the following ratios:

Transaction Ratios

Transaction value / Last 12 months Earnings Per Share	23.4 x
Transaction value / Projected 2006 Earnings Per Share	23.6 x
Transaction value / Projected 2007 Earnings Per Share	21.6 x
Transaction value / Book Value Per Share	297 %
Transaction value / Tangible Book Value Per Share	369 %
Tangible book premium / Core Deposits(1)	35.6 %
One-Day Market Premium(2)	

- (1) Assumes core deposits of \$1,766.4 million
- (2) Based on Mid-State Bancshares' closing stock price of \$29.99 on October 31, 2006

For purposes of Sandler O Neill's analyses, earnings per share were based on fully diluted earnings per share. The aggregate transaction value was approximately \$849.8 million, based upon 22,050,353 shares of Mid-State common stock outstanding, 28,170 shares of restricted stock and including the intrinsic value of options to purchase 1,930,404 shares of Mid-State common stock at a weighted average strike price of \$19.98.

Comparable Company Analysis. Sandler O Neill used publicly available information to compare selected financial and market trading information for Mid-State with the following group of commercial banks located in California (the Composite Peer Group) selected by Sandler O Neill:

Capital Corp of the West	Placer Sierra Bancshares
Farmers & Merchants Bancorp.	Sierra Bancorp
First Community Bancorp	Temecula Valley Bancorp Inc.
First Regional Bancorp	TriCo Bancshares
Heritage Commerce Corp	Vineyard National Bancorp
Pacific Mercantile Bancorp	Westamerica Bancorporation

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The analysis compared publicly available financial and market trading information for Mid-State and the peer group as of and for the twelve-month period ended September 30, 2006, if available, otherwise as of or for the twelve-month period ending June 30, 2006 with pricing data as of October 31, 2006. The data is summarized in the table below.

Comparable Group Analysis

	Mid-State Bancshares		Peer Group Median	
Total Assets (<i>in millions</i>)	\$ 2,367		\$ 1,909	
Tangible Equity / Tangible Assets	9.55	%	7.25	%
LTM Return on Average Assets	1.52	%	1.51	%
LTM Return on Average Equity	13.1	%	16.8	%
Price / Tangible book value	299	%	289	%
Price / LTM Earnings per Share	19.0	x	16.2	x
Price / Estimated 2006 Earnings per Share	19.2	x	16.0	x
Price / Estimated 2007 Earnings per Share	18.9	x	14.3	x
Market Capitalization (<i>in millions</i>)	\$ 661		\$ 358	

Stock Trading History. Sandler O'Neill reviewed the history of the reported trading prices and volume of Mid-State's common stock for the three-year period ended October 31, 2006. Sandler O'Neill compared the relationship between the movements in the prices of Mid-State's common stock to movements in the prices of the NASDAQ Bank Index, the S&P 500 Index, the S&P Bank Index and the weighted average (by market capitalization) performance of the Composite Peer Group.

In the three-year period ended October 31, 2006, Mid-State generally traded in-line with the NASDAQ Bank Index, and the S&P Bank Index and underperformed the Composite Peer Group and the S&P 500.

Mid-State Bancshares Three-Year Stock Performance

	Beginning Index Value October 30, 2003	Ending Index Value October 31, 2006
Mid-State Bancshares	100.00 %	122.06 %
Composite Peer Group	100.00	143.83
S&P 500 Index	100.00	131.62
S&P Bank Index	100.00	125.52
NASDAQ Bank Index	100.00	119.40

Analysis of Selected Merger Transactions. Sandler O'Neill reviewed the 43 merger transactions announced in the United States (the Nationwide Group) from January 1, 2004 through October 31, 2006 involving commercial banks as acquired companies with announced transaction values between \$200 million and \$2 billion. Sandler O'Neill also separately reviewed the 8 merger transactions announced from January 1, 2004 through October 31, 2006 involving commercial banks as targets in the West (the Western Group) with announced transaction values between \$200 million and \$2 billion. Sandler O'Neill reviewed the following multiples: transaction price at announcement to last twelve months earnings per share, transaction price to estimated earnings per share, transaction price to book value per share, transaction price to tangible book value per share, tangible book value premium to core deposits, and premium to current market price. Sandler O'Neill computed a high, low, mean, and median multiple for the transactions. The median multiples from the Nationwide Group and the median multiples for the Western Group were applied to Mid-State's financial information as of and for the twelve months ended

September 30, 2006. As illustrated in the following table, Sandler O'Neill derived imputed ranges of values per share for Mid-State's common stock of \$30.96 to \$36.85 based upon the median multiples for the commercial banks in the Nationwide Group and \$26.61 to \$36.09 based upon the median multiples for transactions in the Western Group.

Comparable Transaction Multiples

	Median Nationwide Group Multiple		Implied Value	Median Western Group Multiple		Implied Value
Transaction price/Last 12 months Earnings per Share	22.26	x	\$ 35.10	19.63	x	\$ 30.95
Transaction price/Est. 2006 Earnings per Share(1)	19.89	x	\$ 31.03	17.06	x	\$ 26.61
Transaction price/Book value	262.44	%	\$ 32.68	260.36	%	\$ 32.42
Transaction price/Tangible book value	331.73	%	\$ 33.24	335.08	%	\$ 33.57
Tangible book premium/Core deposits(2)	27.34	%	\$ 30.96	31.17	%	\$ 33.78
1-Day Market Premium(3)	22.88	%	\$ 36.85	20.35	%	\$ 36.09

- (1) Assumes First Call median analysts' EPS estimate of \$1.56.
- (2) Assumes Mid-State Bancshares' total core deposits are \$1,766 million as of September 30, 2006.
- (3) Based on the closing price of Mid-State Bancshares' common stock of \$29.99 on October 31, 2006.

Present Value Analysis. Sandler O'Neill performed an analysis that estimated the net present value per share through December 31, 2011 of Mid-State common stock under various circumstances and assuming Mid-State performs in accordance with management's financial projections for 2006. For years 2006 through 2011, Sandler O'Neill, in accordance with Mid-State management's guidance, assumed that Mid-State would meet their internal earnings per share estimates in each of those years, which represent earnings per share growth rates between 7-11% for those years. To approximate the terminal value of Mid-State's common stock at December 31, 2011, Sandler O'Neill applied price/earnings multiples ranging from 12.0x to 22.0x and multiples of tangible book value ranging from 150% to 400%. The terminal values were then discounted to present values using different discount rates ranging from 10.0% to 16.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Mid-State common stock. As illustrated in the following tables, this analysis indicated an imputed range of values per share for Mid-State common stock of \$16.68 to \$35.68 when applying the price/earnings multiples and \$13.47 to \$37.15 when applying multiples of tangible book value.

Present Value Per Share Based on Price/Earnings; Net Present Value for Period Ending Dec. 31, 2011

Discount Rate	12.0x	14.0x	16.0x	18.0x	20.0x	22.0x
10.0%	\$ 21.40	24.25	27.11	29.97	32.82	35.68
11.0	20.50	23.23	25.95	28.67	31.40	34.12
12.0	19.65	22.25	24.85	27.45	30.05	32.65
13.0	18.85	21.33	23.81	26.29	28.77	31.25
14.0	18.09	20.46	22.83	25.19	27.56	29.93
15.0	17.37	19.63	21.89	24.15	26.41	28.68
16.0	16.68	18.84	21.01	23.17	25.33	27.49

Present Value Per Share Based on Tangible Book Value; Net Present Value for Period Ending Dec. 31, 2011

Discount Rate	150%	200%	250%	300%	350%	400%
10.0%	\$ 17.13	21.13	25.14	29.14	33.14	37.15
11.0	16.44	20.25	24.07	27.89	31.71	35.53
12.0	15.78	19.42	23.06	26.71	30.35	33.99
13.0	15.16	18.63	22.11	25.58	29.06	32.54
14.0	14.57	17.88	21.20	24.52	27.84	31.16
15.0	14.01	17.18	20.35			