

May 21, 2004

Dear Financial Accounting Standards Board:

This letter is to inform you that as Chairman of the Audit Committee of Mid-State Bancshares I am strongly opposed to the mandatory expensing of stock options.

Our independent auditors' best explanation so far has been "It's going to be the law, so get used to it." I truly do not believe that this statement, nor the proposed ruling, complies with the SOA in dealing with "transparency". We will be required to "expense" a stock option on the date of granting. By definition, an "option" may or may not be exercised after it vests. In the event that it is NOT exercised, there is a "non-event" and we have misled our shareholders in the year of granting the options.

To further compound a bad ruling, we will not be able to recapture the expensed item in a future year. This has the effect of misleading our shareholders on both ends of a non-event. WorldCom capitalized expenses; we are creating expenses that may not happen. Both are bad accounting and misleading to the shareholders.

I believe that the proposed mandatory expensing of stock options is flawed for a number of reasons:

1. The "cost" of options is already reflected in the financial statement in the dilution of earnings per share.
2. The proposal is poor accounting - stock options reflect future equity issuance through additional shares sold, not current income statement expense. Dilution is already picked up in the diluted earnings per share calculation each reporting period that the option is outstanding.
3. The plan will not improve corporate governance and will not help investors gain a complete understanding of a company's finances.
4. No valuation is reliable, consistent or comparable unless our crystal ball would see valuation based on the year 1929.

I urge you to rethink the reasoning that would lead someone to believe that your proposal is good for anyone but accounting firms.

Sincerely,

William L. Snelling Audit Committee Chairman
Mid-State Bank & Trust
991 Bennett Avenue
Arroyo Grande, CA 93420
Telephone: (805) 473-7700
Facsimile: (805) 473-7752
wsnelling@charter.net