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# FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

## FORM 8-K

### CURRENT REPORT

#### PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**Date of Report (Date of earliest event reported): January 27, 2009**

### Summit State Bank

(Exact name of registrant as specified in its charter)

<u>California</u> (State or other jurisdiction of incorporation)	<u>32203</u> (FDIC Insurance Certificate No.)	<u>94-2878925</u> (IRS Employer Identification Number)
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<u>500 Bicentennial Way</u> <u>Santa Rosa, California</u> (Address of principal executive offices)	<u>95403</u> (Zip Code)
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(707) 568-6000  
(Registrant's telephone number, including area code)

N/A  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

On January 26, 2009, the registrant issued the press release attached hereto as Exhibit 99 and incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits**

**(c) Exhibits:**

The exhibit list called for by this item is incorporated by reference to the Exhibit Index filed as part of this report.

**SIGNATURE**

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

Dated: January 27, 2009

**SUMMIT STATE BANK**

By:           /s/ Dennis E. Kelley            
Dennis Kelley  
*Senior Vice President  
and Chief Financial Officer  
(Duly Authorized Officer)*

**Exhibit Index**

<u>Exhibit Number</u>	<u>Description</u>
99	Press release of Summit State Bank dated January 26, 2009 announcing results of operations for the quarter and year ended December 31, 2008 and declaration of dividend.

## **Summit State Bank Reports 73% Increase in Fourth Quarter Results and Declaration of Dividend**

SANTA ROSA, CA – (January 26, 2009) – Summit State Bank (Nasdaq: SSBI) today reported strong, continuing improvements in the bank's net income representing a 73% increase over the same quarter of 2007. "We continue to benefit from measured asset growth with smart community lending, improved net interest margins, greater efficiencies in operations, and excellent asset quality," said President & CEO, Thomas Duryea.

### Dividend

On January 26, 2009, the Board of Directors declared a quarterly cash dividend of \$0.09 per share on the Company's common Stock. The dividend is payable February 23, 2009 to shareholders of record as of the close of business on February 12, 2009. The Board of Directors also declared a \$66,111 quarterly dividend payable on February 15, 2009, on the Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, which was issued to the U.S. Department of the Treasury on December 19, 2008.

### Net Income and Results of Operation

Net operating income was \$764,000 or \$0.16 per diluted share for the fourth quarter of 2008, reflecting an improved net interest margin, continuing strength in asset quality, and focus on operating efficiencies. This represented a \$323,000 or 73% increase to net income of \$441,000 or \$0.09 per diluted share for the fourth quarter of 2007.

Before other than temporary impairment charges on investment securities (OTTI), net income was \$842,000 in the fourth quarter 2008 representing a \$401,000 or 91% increase over fourth quarter 2007.

The fourth quarter benefited from loan growth and further improvement in cost of funding, which increased net interest income to \$3,343,000, a 23% increase over the fourth quarter of 2007. The net interest margin increased to 3.95% for the fourth quarter of 2008 compared to 3.36% for the fourth quarter of 2007.

"Loan growth of 12% from December 31, 2007 to December 31, 2008 added to interest earning assets. Moreover, the Bank benefited from continuing aggressive funds management that has reduced our funding costs to 2.71% in the fourth quarter of 2008 from 4.38.% for the same quarter in 2007," said Dennis Kelley, Chief Financial Officer.

The bank's efficiency ratio, excluding OTTI charges, improved to 54% at the fourth quarter of 2008 from 67% at the fourth quarter 2007.

For the year ended December 31, 2008, net income was \$1,009,000 or \$0.21 per diluted share, a 48% decline from the 2007 annual net income of \$1,942,000 or \$0.40 per diluted share due largely to other than temporary impairment charges (OTTI) primarily recorded

in the third quarter due to the valuations of Fannie Mae and Freddie Mac preferred stocks and other corporate bond investments.

Before charges, including OTTI, employee severance and IT system conversion costs, net income was \$2,770,000 in 2008 or 43 % higher than in 2007.

Total shareholders' equity was \$55,561,000 at December 31, 2008, which includes the \$8,500,000 in preferred stock and common stock warrants issued to the U.S. Department of the Treasury under the governments Capital Purchase Program (CPP). Book value per common share was \$9.92 at December 31, 2008. The Bank's regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 14.8%; a Tier 1 risk-based capital ratio of 17.4%; and a Total risk-based capital ratio of 18.6% ranking in the top tier of local and national banks.

Nonperforming loans at December 31, 2008 were \$1,046,000, of which \$461,000 is guaranteed by the Small Business Administration and all are secured by real estate at conforming advances. The nonperforming assets to total assets ratio was 0.29% at December 31, 2008 and 0.23% after SBA guaranty. The bank's performing loan portfolio ranks favorably compared to peer banks. The Bank had one investment bond with a book value of \$17,000 that had payments deferred.

The Bank had 0% of its loans past due 30 to 89 days for the sixth quarter out of the past seven, including all of 2008.

The bank had no REO (foreclosed properties) during 2008.

The provision for loan losses was \$220,000 for the fourth quarter ended December 31, 2008 as compared to \$259,000 in the fourth quarter of 2007 and \$685,000 for the full year 2008 compared to \$749,000 in 2007. The Bank had \$142,000 in loan charge-offs and \$57,000 in loan recoveries during the fourth quarter of 2008. At December 31, 2008, the allowance for loan losses was \$4,016,000 and represented a ratio to gross loans of 1.32% and to nonperforming loans of 384%. These ratios compare to 1.34% and 779% at December 31, 2007.

Average earning assets were \$336,161,000 for the fourth quarter of 2008, as compared to \$321,172,000 for the same quarter of 2007. The annualized yield on average earning assets was 6.30% and the annualized cost of average interest-bearing liabilities was 2.71% for the fourth quarter of 2008, as compared to the annualized yield on average earning assets of 7.16% and annualized cost of interest-bearing liabilities of 4.38% for the same quarter of 2007. Total loans increased \$15,365,000 during the fourth quarter of 2008, representing an annualized growth rate of 21% from the third quarter of 2008.

For the fourth quarter of 2008, non-interest expense decreased \$44,000 or 2% to \$1,972,000, compared to the same quarter in 2007. Non-interest expense increased to \$8,639,000 for the year ended December 31, 2008 compared to \$7,993,000, with the increase primarily attributable to the costs associated with conversion to a new data processor, employee severance expenses; and full year costs of a branch opened in July 2007.

The Bank recorded a non cash OTTI charge on Investments in the fourth quarter of \$134,000 and for the year \$2,457,000. The OTTI charge in the fourth quarter was the further write down of government agency preferred stocks and one trust preferred pooled security. The remaining recorded book value of these securities at December 31, 2008 was \$46,000. In the third quarter the Bank recorded an OTTI charge on a GMAC bond with a par value of \$500,000 and current book value of \$263,000. The market value of the GMAC bond recovered to \$375,000 at December 31, 2008.

Total assets were \$364,333,000 at December 31, 2008, an increase of \$24,140,000, or 7%, compared to \$340,193,000 at December 31, 2007.

"We are pleased with the results of the fourth quarter and our operating earnings growth in 2008. We remain committed to driving stronger results in 2009 and beyond. We are on an upward trend in operating results and are entering 2009 with a net interest margin of 4%. The excellent asset quality ratios at year end are testament to our prudent underwriting standards employed by our strong, experienced credit team. With our strong capital position, we look forward to continuing to serve the banking needs of our community, so essential in these times." said Thomas Duryea, President & CEO.

#### About Summit State Bank

Summit State Bank has total assets of \$364 million and total equity of \$56 million at December 31, 2008. Headquartered in Sonoma County, the Bank provides diverse financial products and services throughout Sonoma, Napa, San Francisco, and Marin Counties. Summit State Bank stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at [www.summitstatebank.com](http://www.summitstatebank.com).

#### Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

**SUMMIT STATE BANK AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except for earnings per share data)

	Three Months Ended		Twelve Months Ended	
	December 31, 2008 (Unaudited)	December 31, 2007	December 31, 2008 (Unaudited)	December 31, 2007
Interest income:				
Interest and fees on loans	\$ 4,726	\$ 5,166	\$ 18,848	\$ 20,327
Interest on Federal funds sold	-	3	69	6
Interest on investment securities and deposits in banks	602	581	2,523	2,293
Dividends on FHLB stock	7	43	114	129
<b>Total interest income</b>	<b>5,335</b>	<b>5,793</b>	<b>21,554</b>	<b>22,755</b>
Interest expense:				
Deposits	1,663	2,485	7,332	9,869
Securities sold under repurchase agreements	-	-	-	2
FHLB advances	329	587	1,879	2,033
<b>Total interest expense</b>	<b>1,992</b>	<b>3,072</b>	<b>9,211</b>	<b>11,904</b>
<b>Net interest income before provision for loan losses</b>	<b>3,343</b>	<b>2,721</b>	<b>12,343</b>	<b>10,851</b>
Provision for loan losses	220	259	685	749
<b>Net interest income after provision for loan losses</b>	<b>3,123</b>	<b>2,462</b>	<b>11,658</b>	<b>10,102</b>
Non-interest income:				
Service charges	94	96	404	352
Office leases	181	183	669	699
Gains on sales of loans	-	-	-	41
Securities Impairment	(134)	-	(2,457)	-
Loan servicing, net	2	15	46	65
Other income	13	5	35	39
<b>Total non-interest income</b>	<b>156</b>	<b>299</b>	<b>(1,303)</b>	<b>1,196</b>
Non-interest expense:				
Salaries and employee benefits	946	1,061	4,343	3,974
Occupancy and equipment	443	436	1,735	1,624
Other expenses	583	519	2,561	2,395
<b>Total non-interest expense</b>	<b>1,972</b>	<b>2,016</b>	<b>8,639</b>	<b>7,993</b>
<b>Income before provision for income taxes</b>	<b>1,307</b>	<b>745</b>	<b>1,716</b>	<b>3,305</b>
Provision for Income taxes	543	304	707	1,363
<b>Net income</b>	<b>\$ 764</b>	<b>\$ 441</b>	<b>\$ 1,009</b>	<b>\$ 1,942</b>
Less: Accretion of preferred stock discount	(4)	-	(4)	-
<b>Net Income available for common stock</b>	<b>\$ 760</b>	<b>\$ 441</b>	<b>\$ 1,005</b>	<b>\$ 1,942</b>
Basic earnings per share	\$ 0.16	\$ 0.09	\$ 0.21	\$ 0.40
Diluted earnings per share	\$ 0.16	\$ 0.09	\$ 0.21	\$ 0.40
Basic weighted average shares of common stock outstanding	4,745	4,805	4,745	4,831
Diluted weighted average shares of common stock outstanding	4,745	4,808	4,745	4,834

**SUMMIT STATE BANK AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
(In thousands)**

	<b>December 31, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 3,650	\$ 5,695
Federal funds sold	-	7,110
Total cash and cash equivalents	3,650	12,805
Time deposits in banks	-	80
Available-for-sale investment securities - amortized cost of \$41,089 in 2008 and \$35,404 in 2007	41,183	35,426
Held-to-maturity investment securities - market value of \$5,000 in 2007	-	5,000
Loans, less allowance for loan losses of \$4,016 in 2008 and \$3,621 in 2007	299,645	267,067
Bank premises and equipment, net	7,816	8,463
Investment in Federal Home Loan Bank stock, at cost	2,695	2,850
Goodwill	4,119	4,119
Accrued interest receivable and other assets	5,225	4,383
Total assets	\$ 364,333	\$ 340,193
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 10,773	\$ 10,297
Demand - interest-bearing	13,597	12,421
Savings	10,068	12,460
Money market	26,123	29,858
Time deposits, \$100,000 and over	84,751	103,995
Other time deposits	107,451	79,988
Total deposits	252,763	249,019
Federal Home Loan Bank (FHLB) advances	55,173	42,600
Accrued interest payable and other liabilities	836	859
Total liabilities	308,772	292,478
Shareholders' equity		
Preferred stock (net); 20,000 shares authorized; 8,500 issued at December 31, 2008	7,882	-
Common stock, no par value; shares authorized - 30,000; shares issued and outstanding - 4,745 at December 31, 2008 and 2007	36,251	36,244
Common stock warrants	622	-
Retained earnings	10,752	11,455
Accumulated other comprehensive income (loss), net of taxes	54	16
Total shareholders' equity	55,561	47,715
Total liabilities and shareholders' equity	\$ 364,333	\$ 340,193

**(In Thousands Except Per share Data)**

	Three Months Ended		Twelve Months Ended	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 3,343	\$ 2,721	\$ 12,343	\$ 10,851
Provision for loan losses	220	259	685	749
Total non-interest income	156	299	(1,303)	1,196
Total non-interest expense	1,972	2,016	8,639	7,993
Provision for Income taxes	543	304	707	1,363
Net income	<u>\$ 764</u>	<u>\$ 441</u>	<u>\$ 1,009</u>	<u>\$ 1,942</u>
<b>Selected per Share Data:</b>				
Earnings per share - basic	\$ 0.16	\$ 0.09	\$ 0.21	\$ 0.40
Earnings per share - diluted	\$ 0.16	\$ 0.09	\$ 0.21	\$ 0.40
Book value per share (2)	\$ 10.05	\$ 10.06	\$ 10.05	\$ 10.06
<b>Nonperforming assets:</b>				
Loans on non-accrual or past due more than 90 days	\$ 1,046	\$ 465	\$ 1,046	\$ 465
Other nonperforming assets	\$ 17	\$ -	\$ 17	\$ -
<b>Selected Ratios:</b>				
Return on average assets (1)	0.86%	0.52%	0.29%	0.59%
Return on average equity (1)	6.36%	3.61%	2.12%	4.03%
Return on average tangible equity (1)	6.96%	3.94%	2.32%	4.40%
Net interest margin (1)	3.95%	3.36%	3.78%	3.49%
Dividend payout ratio	56.18%	98.64%	56.18%	89.75%
Average equity to average assets	13.55%	14.28%	13.88%	14.64%
Leveraged capital ratio	14.76%	12.48%	14.76%	12.98%
Efficiency ratio (3)	54.28%	66.75%	64.01%	66.35%
Nonperforming loans to total loans (2)	0.34%	0.17%	0.34%	0.17%
Nonperforming assets to total assets (2)	0.29%	0.14%	0.29%	0.14%
Allowance for loan losses to total loans (2)	1.32%	1.34%	1.32%	1.34%
Allowance for loan losses to nonperforming loans (2)	384%	779%	384%	779%

(1) Annualized.

(2) As of period end

(3) Efficiency ratio is noninterest expenses divided by net interest income and noninterest income, excluding other than temporary impairment charges.