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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): October 27, 2008**

### 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 October 27, 2008, 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: October 27, 2008

**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 October 27, 2008 announcing results of operations for the quarter ended September 30, 2008 and declaration of dividend.

## **Summit State Bank Reports Third Quarter Results and Declaration of Dividend**

SANTA ROSA, CA – (October 27, 2008) – Summit State Bank (Nasdaq: SSBI) today reported strong, continuing improvements in the bank's core net operating income representing a 45% increase over the same quarter of 2007. "We are experiencing strong core earnings growth due to our ongoing strategy of prudently placing higher quality, higher yielding loans on our balance sheet while driving core deposit growth to drive lower cost of funding and generating greater efficiencies in our overhead structure," said President & CEO, Thomas Duryea.

Company recorded a onetime, noncash charge related to the previously announced other than temporary impairment charges (OTTI) on investment securities resulting in a net loss of \$0.12 per diluted share for the third quarter ended September 30, 2008. Company's ever important capital position remains ranked #1 of all established Sonoma based banks well above the level required by the FDIC to be considered a "well capitalized" bank. A dividend of \$0.09 per share on the Company's common stock was declared.

### **Dividend**

On October 27, 2008, the Board of Directors declared a quarterly cash dividend of \$0.09 per share on the Company's common Stock. The dividend is payable November 21, 2008 to shareholders of record as of the close of business on November 12, 2008.

### **Net Income (Loss) and Results of Operation**

Net operating income was \$740,000 or \$0.16 per diluted share for the third quarter of 2008, reflecting an improved net interest margin, continuing strength in asset quality and focus on operating expenses before the securities' impairment charge. Net interest income increased \$560,000, or 21% to \$3,291,000 during the third quarter of 2008 compared to \$2,731,000 for the same quarter of 2007. The annualized net interest margin increased to 4.06% for the third quarter of 2008 contrary to industry trends, compared to 3.45% for the third quarter of 2007. The net interest margin was positively impacted by the declines in the bank's funding costs.

The bank launched an advertising campaign with the caption "safe, sound and smart" to focus the community on Summit's strong capital ratios and asset quality comparing favorably to peers. This campaign has successfully attracted deposits & loans from customers seeking a strong, stable institution with which to conduct their banking business.

The Bank had a net loss of \$569,000, or \$0.12 per diluted share for the quarter ended September 30, 2008 due to the OTTI compared to net income of \$509,000, or \$0.10 per diluted share for the third quarter of 2007. Net income for the nine months ended September 30, 2008 was \$245,000, or \$0.05 per diluted share compared to \$1,501,000 or \$0.31 per diluted share for the same period in 2007.

The third quarter was impacted by an OTTI charge of \$2,262,000 for investments in Fannie Mae and Freddie Mac preferred stocks and securities of Lehman Brothers Holdings and other corporations. "These are extraordinary times," stated Mr. Duryea, "that are impacting the whole banking industry regardless of whether or not you were involved directly with originating subprime loans, which we were not." "The one time securities impairment charge," stated Mr. Dennis Kelley, Senior Vice President & CFO, "does not impact the bank's steady, improving core operating trends that should portend well for the bank going forward." Net operating income was \$740,000 or \$0.16 per diluted share for the third quarter of 2008, reflecting in improved net interest margin, continuing strength in asset quality and focus on operating expenses.

Total shareholders' equity was \$46,353,000 at September 30, 2008 and book value per share was \$9.77. The Bank's regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 12.5%, a Tier 1 risk-based capital ratio of 15.5% and a Total risk-based capital ratio of 16.8% ranking in the top tier of local and national banks. Moreover, the companies performing loan portfolio ranks favorably to all peer banks.

Average earning assets were \$321,275,000 for the third quarter of 2008, as compared to \$314,341,000 for the same quarter of 2007. The annualized yield on average earning assets was 6.72% and the annualized cost of average interest-bearing liabilities was 2.98% for the third quarter of 2008, as compared to the annualized yield on average earning assets of 7.35% and annualized cost of interest-bearing liabilities of 4.51% for the same quarter of 2007.

For the third quarter of 2008, non-interest expense increased \$170,000 or 9% to \$2,165,000, compared to the same quarter in 2007 due primarily to a onetime, non-recurring expense. During the third quarter, the Bank completed the conversion to a new vendor for its core data processing. Expenses incurred during the quarter related to the conversion were \$108,000.

Total loans were \$288,296,000 at September 30, 2008, an increase of \$10,157,000, or 4%, compared to total loans of \$278,139,000 at September 30, 2007.

Total deposits were \$257,914,000 at September 30, 2008, an increase of \$11,228,000, or 5%, compared to \$246,686,000 at September 30, 2007.

Total assets were \$349,786,000 at September 30, 2008, an increase of \$11,769,000, or 3%, compared to \$338,017,000 at September 30, 2007.

Nonperforming assets at September 30, 2008 was \$883,000, of which the majority is partially guaranteed by the Small Business Administration and all are secured by real estate at conforming advances. After adjustment for SBA guaranty, app. 0.20% of total loans was nonperforming; which is app. 10 times better than industry average.

The Bank has had no REO (foreclosed) properties in 2008.

The provision for loan losses was \$130,000 for the third quarter ended September 30, 2008 as compared to \$159,000 in the third quarter of 2007. The Bank had \$183,000 in

loan charge-offs and \$111,000 in loan recoveries during the third quarter of 2008. At September 30, 2008, the allowance for loan losses was \$3,817,000 and represented a ratio to gross loans of 1.34% and to nonperforming loans of 432%. These ratios compare to 1.21% and 1010% at September 30, 2007.

The Bank's lending focus has been on commercial lending & commercial real estate. Construction & Residential home mortgage lending have been minimal over the past several years and the Bank has not made loans that would be classified as subprime mortgage loans.

#### About Summit State Bank

Summit State Bank has total assets of \$350 million and total equity of \$46 million at September 30, 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.

#### 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)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>	<b>September 30, 2008</b>	<b>September 30, 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Interest income:</b>				
Interest and fees on loans	\$ 4,738	\$ 5,213	\$ 14,122	\$ 15,161
Interest on Federal funds sold	-	1	69	3
Interest on investment securities and deposits in banks	664	580	1,921	1,712
Dividends on FHLB stock	39	28	107	86
<b>Total interest income</b>	<b>5,441</b>	<b>5,822</b>	<b>16,219</b>	<b>16,962</b>
<b>Interest expense:</b>				
Deposits	1,654	2,613	5,669	7,384
Securities sold under repurchase agreements	-	-	-	2
FHLB advances	496	478	1,550	1,446
<b>Total interest expense</b>	<b>2,150</b>	<b>3,091</b>	<b>7,219</b>	<b>8,832</b>
<b>Net interest income before provision for loan losses</b>	<b>3,291</b>	<b>2,731</b>	<b>9,000</b>	<b>8,130</b>
<b>Provision for loan losses</b>	<b>130</b>	<b>159</b>	<b>465</b>	<b>490</b>
<b>Net interest income after provision for loan losses</b>	<b>3,161</b>	<b>2,572</b>	<b>8,535</b>	<b>7,640</b>
<b>Non-interest income:</b>				
Service charges	96	76	310	256
Office leases	179	184	488	516
Gains on sales of loans	-	-	-	41
Securities impairment	(2,262)	-	(2,323)	-
Loan servicing, net	10	22	44	58
Other income	7	8	22	26
<b>Total non-interest income</b>	<b>(1,970)</b>	<b>290</b>	<b>(1,459)</b>	<b>897</b>
<b>Non-interest expense:</b>				
Salaries and employee benefits	1,066	957	3,397	2,913
Occupancy and equipment	450	431	1,292	1,187
Other expenses	649	607	1,978	1,877
<b>Total non-interest expense</b>	<b>2,165</b>	<b>1,995</b>	<b>6,667</b>	<b>5,977</b>
<b>Income (loss) before provision for income taxes</b>	<b>(974)</b>	<b>867</b>	<b>409</b>	<b>2,560</b>
<b>Provision for Income taxes</b>	<b>(405)</b>	<b>358</b>	<b>164</b>	<b>1,059</b>
<b>Net income (loss)</b>	<b>\$ (569)</b>	<b>\$ 509</b>	<b>\$ 245</b>	<b>\$ 1,501</b>
<b>Basic earnings per share</b>	<b>\$ (0.12)</b>	<b>\$ 0.11</b>	<b>\$ 0.05</b>	<b>\$ 0.31</b>
<b>Diluted earnings per share</b>	<b>\$ (0.12)</b>	<b>\$ 0.10</b>	<b>\$ 0.05</b>	<b>\$ 0.31</b>
<b>Basic weighted average shares of common stock outstanding</b>	<b>4,745</b>	<b>4,845</b>	<b>4,745</b>	<b>4,840</b>
<b>Diluted weighted average shares of common stock outstanding</b>	<b>4,745</b>	<b>4,853</b>	<b>4,745</b>	<b>4,848</b>

**SUMMIT STATE BANK AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

(In thousands)

	<b>September 30, 2008</b>	<b>September 30, 2007</b>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 3,783	\$ 4,224
Federal funds sold	-	-
Total cash and cash equivalents	<u>3,783</u>	<u>4,224</u>
Time deposits in banks	-	160
Available-for-sale investment securities - at market value		
\$41,744 at September 30, 2008 and \$35,209 at September 30, 2007	41,157	34,910
Held-to-maturity investment securities -at cost		
\$4,930 at September 30, 2007	-	5,000
Loans, less allowance for loan losses of \$3,871		
at September 30, 2008 and \$3,362 at September 30, 2007	284,425	274,777
Bank premises and equipment, net	7,899	8,577
Investment in Federal Home Loan Bank stock, at cost	3,383	2,203
Goodwill	4,119	4,119
Accrued interest receivable and other assets	<u>5,020</u>	<u>4,047</u>
Total assets	<u><u>\$ 349,786</u></u>	<u><u>\$ 338,017</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 11,659	\$ 11,015
Demand - interest-bearing	12,785	12,299
Savings	10,126	11,484
Money market	34,830	33,670
Time deposits, \$100 thousand and over	84,761	91,922
Other time deposits	<u>103,753</u>	<u>86,296</u>
Total deposits	257,914	246,686
Securities sold under repurchase agreements	-	4
Federal Home Loan Bank (FHLB) advances	44,740	42,370
Accrued interest payable and other liabilities	<u>779</u>	<u>725</u>
Total liabilities	<u>303,433</u>	<u>289,785</u>
Shareholders' equity		
Preferred stock, no par value; 20,000 shares authorized; none issued	-	-
Common stock, no par value; shares authorized - 30,000; shares		
issued and outstanding 4,745 at September 30, 2008 and 4,845		
at September 30, 2007	36,238	36,957
Retained earnings	10,419	11,449
Accumulated other comprehensive income (loss), net of taxes	<u>(304)</u>	<u>(174)</u>
Total shareholders' equity	<u>46,353</u>	<u>48,232</u>
Total liabilities and shareholders' equity	<u><u>\$ 349,786</u></u>	<u><u>\$ 338,017</u></u>

**Earnings Summary  
(In Thousands)**

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 3,291	\$ 2,731	\$ 9,000	\$ 8,130
Provision for loan losses	130	159	465	490
Non-interest income	(1,970)	290	(1,459)	897
Non-interest expense	2,165	1,995	6,667	5,977
Provision for Income taxes	(405)	358	164	1,059
Net income (loss)	<u>\$ (569)</u>	<u>\$ 509</u>	<u>\$ 245</u>	<u>\$ 1,501</u>
<b>Selected per Share Data:</b>				
Basic earnings per share	\$ (0.12)	\$ 0.11	\$ 0.05	\$ 0.31
Diluted earnings per share	\$ (0.12)	\$ 0.10	\$ 0.05	\$ 0.31
Book value per share (2)	\$ 9.77	\$ 9.96	\$ 9.77	\$ 9.96
<b>Selected Ratios:</b>				
Return on average assets (1)	-0.65%	0.61%	0.10%	0.62%
Return on average equity (1)	-4.79%	4.20%	0.69%	4.17%
Return on average tangible equity (1)	-5.25%	4.60%	0.75%	4.56%
Efficiency ratio	-	66.04%	88.41%	66.21%
Net interest margin (1)	4.06%	3.45%	3.79%	3.54%
Dividend payout ratio	-	85.66%	522.86%	87.14%
Average equity to average assets	13.65%	14.43%	14.07%	14.76%
Nonperforming loans to total loans (2)	0.31%	0.12%	0.31%	0.12%
Nonperforming assets to total assets (2)	0.25%	0.10%	0.25%	0.10%
Allowance for loan losses to total loans (2)	1.34%	1.21%	1.34%	1.21%
Allowance for loan losses to nonperforming loans (2)	438.39%	1009.61%	438.39%	1009.61%

(1) Annualized.

(2) As of period end