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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): July 29, 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 July 28, 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: July 29, 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 July 28, 2008 announcing results of operations for the quarter ended June 30, 2008 and declaration of dividend.

## **Summit State Bank Reports a 46% Increase in Second Quarter Earnings and Declaration of Dividend**

SANTA ROSA, CA – (July 28, 2008) – Summit State Bank (Nasdaq: SSBI) today reported a 46% increase in net income for the second quarter ended June 30, 2008 over the same quarter in 2007. Net income was \$584,000, or \$0.12 per diluted share for the quarter and \$814,000, or \$0.17 per diluted share for the six months ended June 30, 2008. A dividend of \$0.09 per share on the Company's common stock was declared.

### **Dividend**

On July 28, 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 August 21, 2008 to shareholders of record as of the close of business on August 12, 2008.

### **Net Income and Results of Operation**

The Bank had net income of \$584,000, or \$0.12 per diluted share for the quarter ended June 30, 2008. This is a 46% increase as compared to net income of \$400,000, or \$0.08 per diluted share for the second quarter of 2007. Net income for the six months ended June 30, 2008 was \$814,000, or \$0.17 per diluted share compared to \$992,000, or \$0.20 per diluted share for the same period in 2007. Net income for the second quarter of 2008 benefited from a higher net interest margin.

“Our higher earnings were the result of improved net interest margin as we continue to focus on productivity to improve our efficiency ratio reflecting favorably on the bank's ability to manage effectively in this present weakened economy,” said President and CEO Thomas Duryea.

Total shareholders' equity was \$47,277,000 at June 30, 2008 and book value per share was \$9.96.

The Bank's regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 12.9%, a Tier 1 risk-based capital ratio of 15.2% and a Total risk-based capital ratio of 16.5% at June 30, 2008.

Annualized return on average assets and annualized return on average equity increased by 43% and 48%, respectively, to 0.70% and 4.92% for the three months ended June 30, 2008, as compared to 0.49% and 3.32% for the second quarter of 2007.

Net interest income increased \$427,000, or 16%, to \$3,062,000 during the second quarter of 2008 compared to \$2,635,000 for the same quarter of 2007. The annualized net interest margin increased to 3.84% for the second quarter of 2008, compared to 3.43% for the second quarter of 2007. The net interest margin was positively impacted by the declines in the bank's funding costs which decreased more than the decline in interest income and the yield on average earning assets.

“We continue to focus on lowering our cost of funds, which is an ongoing top priority of the bank,” said Dennis Kelley, Chief Financial Officer.

Average earning assets were \$319,759,000 for the second quarter of 2008, as compared to \$307,893,000 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 3.30% for the second quarter of 2008, as compared to the annualized yield on average earning assets of 7.30% and annualized cost of interest-bearing liabilities of 4.48% for the same quarter of 2007.

Non-interest income in the second quarter of 2008, reflects a \$61,000 pretax impairment charge on an investment security that is collateralized by trust preferred issues of financial institutions. The adjusted book value after the charge of the security is \$185,000.

For the second quarter of 2008, non-interest expense increased \$110,000, or 5%, to \$2,112,000, compared to the same quarter in 2007 primarily due to the opening of the Bank’s fifth office on the third quarter of 2007. For the first six months of 2008, non-interest expense increased \$520,000, or 13%, to \$4,502,000, compared to the same period in 2007.

During the first six months of 2008, the Bank restructured various departments to address productivity resulting in the elimination of employee positions. Also, the Bank entered into a contract to convert its core data processing system to a new vendor. Excluding \$267,000 of expenses associated with the employee position eliminations and \$196,000 of expenses related to our core data processor change, total non-interest expense would have increased \$57,000, or 1%, for the first six months of 2008 compared to the same period in 2007.

Total loans were \$275,622,000 at June 30, 2008, an increase of \$9,403,000, or 4%, compared to total loans of \$266,219,000 at June 30, 2007.

Total deposits were \$229,637,000 at June 30, 2008, a decrease of \$15,633,000, or 6%, compared to \$245,270,000 at June 30, 2007. The decline in total deposits was the result of management’s decision to aggressively reduce the cost of its deposits. Alternative funding to replace the deposits was acquired from the Federal Home Loan Bank.

Total assets were \$341,798,000 at June 30, 2008, an increase of \$11,066,000, or 3%, compared to \$330,732,000 at June 30, 2007.

Nonperforming assets at June 30, 2008 consisted of one loan on nonaccrual status with a balance of \$267,000 secured by a single family residence.

“We remain focused on loan quality. Loan growth will continue to be dictated by prudent underwriting practices implemented by our experienced staff that have resulted in continued minimal nonaccruals; charge-offs; and past due loans,” said Duryea.

The provision for loan losses was \$180,000 for the second quarter ended June 30, 2008 as compared to \$260,000 for the second quarter of 2007. The Bank had \$143,000 in loan charge-offs during the second quarter of 2008. At June 30, 2008, the allowance for loan

losses was \$3,813,000 and represented a ratio to gross loans of 1.38% and to nonperforming loans of 1,428%. These ratios compare to 1.19% and 931% at June 30, 2007.

The Bank's lending focus has been on commercial lending, commercial real estate and construction lending. Residential home mortgage lending has 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 \$342 million and total equity of \$47 million at June 30, 2008. The Bank provides diverse financial products and services which are marketed throughout Sonoma County, California and surrounding areas, with offices located in Santa Rosa, Rohnert Park, Petaluma and Windsor. 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>Six Months Ended</b>	
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Interest income:</b>				
Interest and fees on loans	\$ 4,643	\$ 4,986	\$ 9,384	\$ 9,948
Interest on Federal funds sold	-	2	69	2
Interest on investment securities and deposits in banks	658	589	1,257	1,132
Dividends on FHLB stock	35	30	68	58
	<u>5,336</u>	<u>5,607</u>	<u>10,778</u>	<u>11,140</u>
<b>Total interest income</b>				
<b>Interest expense:</b>				
Deposits	1,723	2,426	4,015	4,771
Securities sold under repurchase agreements	-	1	-	2
FHLB advances	551	545	1,054	968
	<u>2,274</u>	<u>2,972</u>	<u>5,069</u>	<u>5,741</u>
<b>Total interest expense</b>				
Net interest income before provision for loan losses	3,062	2,635	5,709	5,399
Provision for loan losses	180	260	335	331
	<u>2,882</u>	<u>2,375</u>	<u>5,374</u>	<u>5,068</u>
<b>Net interest income after provision for loan losses</b>				
<b>Non-interest income:</b>				
Service charges	101	95	214	181
Office leases	150	166	309	332
Gains on sales of loans	-	27	-	41
Loan servicing, net	19	19	34	29
Other income	(49)	6	(46)	24
	<u>221</u>	<u>313</u>	<u>511</u>	<u>607</u>
<b>Total non-interest income</b>				
<b>Non-interest expense:</b>				
Salaries and employee benefits	1,039	957	2,332	1,956
Occupancy and equipment	425	390	842	757
Other expenses	648	655	1,328	1,269
	<u>2,112</u>	<u>2,002</u>	<u>4,502</u>	<u>3,982</u>
<b>Total non-interest expense</b>				
Income before provision for income taxes	991	686	1,383	1,693
Provision for Income taxes	407	286	569	701
	<u>\$ 584</u>	<u>\$ 400</u>	<u>\$ 814</u>	<u>\$ 992</u>
<b>Net income</b>				
Basic earnings per share	\$ 0.12	\$ 0.08	\$ 0.17	\$ 0.21
Diluted earnings per share	\$ 0.12	\$ 0.08	\$ 0.17	\$ 0.20
Basic weighted average shares of common stock outstanding	4,745	4,845	4,745	4,837
Diluted weighted average shares of common stock outstanding	4,745	4,857	4,745	4,849

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

(In thousands)

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 4,781	\$ 5,932
Federal funds sold	-	690
Total cash and cash equivalents	4,781	6,622
Time deposits in banks	-	160
Available-for-sale investment securities - amortized cost of \$46,080 at June 30, 2008 and \$35,317 at June 30, 2007	45,412	34,502
Held-to-maturity investment securities - market value of \$4,820 at June 30, 2007	-	5,000
Loans, less allowance for loan losses of \$3,813 at June 30, 2008 and \$3,175 at June 30, 2007	271,809	263,044
Bank premises and equipment, net	8,112	8,482
Investment in Federal Home Loan Bank stock, at cost	3,098	3,305
Goodwill	4,119	4,119
Accrued interest receivable and other assets	4,467	5,498
Total assets	\$ 341,798	\$ 330,732
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 11,966	\$ 11,701
Demand - interest-bearing	12,294	11,724
Savings	10,795	12,296
Money market	22,304	37,624
Time deposits, \$100 thousand and over	98,824	85,396
Other time deposits	73,454	86,529
Total deposits	229,637	245,270
Securities sold under repurchase agreements	-	101
Federal Home Loan Bank (FHLB) advances	64,045	36,620
Accrued interest payable and other liabilities	839	873
Total liabilities	294,521	282,864
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 June 30, 2008 and 4,845 at June 30, 2007	36,244	36,956
Retained earnings	11,415	11,376
Accumulated other comprehensive income (loss), net of taxes	(382)	(464)
Total shareholders' equity	47,277	47,868
Total liabilities and shareholders' equity	\$ 341,798	\$ 330,732

## Earnings Summary (In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 3,062	\$ 2,635	\$ 5,709	\$ 5,399
Provision for loan losses	180	260	335	331
Non-interest income	221	313	511	607
Non-interest expense	2,112	2,002	4,502	3,982
Provision for Income taxes	407	286	569	701
Net income	\$ 584	\$ 400	\$ 814	\$ 992
<b>Selected per Share Data:</b>				
Basic earnings per share	\$ 0.12	\$ 0.08	\$ 0.17	\$ 0.21
Diluted earnings per share	\$ 0.12	\$ 0.08	\$ 0.17	\$ 0.20
Book value per share (2)	\$ 9.96	\$ 9.88	\$ 9.96	\$ 9.88
<b>Selected Ratios:</b>				
Return on average assets (1)	0.70%	0.49%	0.49%	0.62%
Return on average equity (1)	4.92%	3.32%	3.43%	4.15%
Return on average tangible equity (1)	5.39%	3.63%	3.75%	4.54%
Efficiency ratio	64.33%	67.91%	72.38%	66.30%
Net interest margin (1)	3.84%	3.43%	3.58%	3.59%
Dividend payout ratio	73.12%	109.25%	104.91%	87.90%
Average equity to average assets	14.17%	14.75%	14.15%	14.93%
Nonperforming loans to total loans (2)	0.10%	0.13%	0.10%	0.13%
Nonperforming assets to total assets (2)	0.08%	0.38%	0.08%	0.38%
Allowance for loan losses to total loans (2)	1.38%	1.19%	1.38%	1.19%
Allowance for loan losses to nonperforming loans (2)	1428.09%	931.09%	1428.09%	931.09%

(1) Annualized.

(2) As of period end