

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10-Q

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

For the quarterly period ended June 30, 2009

FDIC Certificate No.32203

Summit State Bank

(exact name of registrant as specified in its charter)

94-2878925

(I.R.S Employer Identification No.)

California

(State or other jurisdiction of incorporation or organization)

500 Bicentennial Way, Santa Rosa, CA 95403 Telephone: 707-568-6000

(Address of principal executive offices) (Zip Code) (Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company, in Rule 12b(2) of the Exchange Act. Yes No

As of August 12, 2009 there were 4,744,720 shares of common stock outstanding.

Summit State Bank

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Part I Financial Information

SUMMIT STATE BANK AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 2,364	\$ 3,650
Total cash and cash equivalents	<u>2,364</u>	<u>3,650</u>
Available-for-sale investment securities - amortized cost of \$32,699 in 2009 and \$41,088 in 2008	32,050	41,183
Loans, less allowance for loan losses of \$4,415 in 2009 and \$4,016 in 2008	300,070	299,645
Bank premises and equipment, net	7,697	7,816
Investment in Federal Home Loan Bank stock, at cost	2,942	2,942
Goodwill	4,119	4,119
Accrued interest receivable and other assets	<u>6,677</u>	<u>5,225</u>
Total assets	<u>\$ 355,919</u>	<u>\$ 364,580</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	\$ 12,722	\$ 10,773
Demand - interest-bearing	17,905	13,597
Savings	11,479	10,068
Money market	26,958	26,123
Time deposits, \$100,000 and over	89,460	84,751
Other time deposits	<u>97,831</u>	<u>107,451</u>
Total deposits	256,355	252,763
Federal Home Loan Bank (FHLB) advances	42,950	55,420
Accrued interest payable and other liabilities	959	850
Total liabilities	<u>300,264</u>	<u>309,033</u>
Shareholders' equity		
Preferred stock, no par value; 20,000,000 shares authorized; shares issued and outstanding 8,500 in 2009 and 2008; per share redemption of \$1,000 for total liquidation preference of \$8,500	7,927	7,868
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 4,744,720 at June 30, 2009 and December 31, 2008	36,262	36,251
Common stock warrants	622	622
Retained earnings	11,223	10,752
Accumulated other comprehensive income (loss), net of taxes	<u>(379)</u>	<u>54</u>
Total shareholders' equity	55,655	55,547
Total liabilities and shareholders' equity	<u>\$ 355,919</u>	<u>\$ 364,580</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Interest and fees on loans	\$ 4,845	\$ 4,643	\$ 9,589	\$ 9,384
Interest on Federal funds sold	-	-	-	69
Interest on investment securities and deposits in banks	446	658	1,044	1,257
Dividends on FHLB stock	-	35	-	68
	<u>5,291</u>	<u>5,336</u>	<u>10,633</u>	<u>10,778</u>
Total interest income				
Interest expense:				
Deposits	1,149	1,723	2,501	4,015
FHLB advances	270	551	558	1,054
	<u>1,419</u>	<u>2,274</u>	<u>3,059</u>	<u>5,069</u>
Total interest expense				
Net interest income before provision for loan losses	3,872	3,062	7,574	5,709
Provision for loan losses	550	180	1,000	335
	<u>3,322</u>	<u>2,882</u>	<u>6,574</u>	<u>5,374</u>
Net interest income after provision for loan losses				
Non-interest income:				
Service charges on deposit accounts	98	101	199	214
Office leases	114	150	339	309
Net securities gains	-	-	28	-
Loan servicing, net	11	19	38	34
Securities impairment	-	(61)	-	(61)
Other income	2	12	27	15
	<u>225</u>	<u>221</u>	<u>631</u>	<u>511</u>
Total non-interest income				
Non-interest expense:				
Salaries and employee benefits	1,049	1,039	2,173	2,331
Occupancy and equipment	407	425	849	842
Other expenses	859	648	1,528	1,329
	<u>2,315</u>	<u>2,112</u>	<u>4,550</u>	<u>4,502</u>
Total non-interest expense				
Income before provision for income taxes	1,232	991	2,655	1,383
Provision for income taxes	519	407	1,095	569
	<u>\$ 713</u>	<u>\$ 584</u>	<u>\$ 1,560</u>	<u>\$ 814</u>
Net income				
Less: preferred dividends	138	-	235	-
	<u>\$ 575</u>	<u>\$ 584</u>	<u>\$ 1,325</u>	<u>\$ 814</u>
Net income available for common stockholders				
Basic earnings per common share	0.12	0.12	0.28	0.17
Diluted earnings per common share	0.12	0.12	0.28	0.17
Basic weighted average shares of common stock outstanding	4,745	4,745	4,745	4,745
Diluted weighted average shares of common stock outstanding	4,764	4,745	4,749	4,745

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2009 (Unaudited) and the Year Ended December 31, 2008

(In thousands, except share and dividends per share)

	Preferred Stock and Common Stock Warrants Amount	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity	Total Compre- hensive Income
		Shares	Amount				
Balance, January 1, 2008	\$ -	4,744,720	\$ 36,244	\$ 11,455	\$ 16	\$ 47,715	
Comprehensive income:							
Net income				1,009		1,009	\$ 1,009
Other comprehensive income, net of tax:							
Net change in unrealized gains (losses) on available-for-sale investment securities					38	38	38
Total comprehensive income							<u>\$ 1,047</u>
Stock-based compensation expense			13			13	
Preferred stock (8,500 shares) and warrants issued	8,486					8,486	
Accretion of preferred stock discount	4			(4)		-	
Stock purchases and retirements			(6)			(6)	
Cash dividends - \$.36 per share				(1,708)		(1,708)	
Balance, December 31, 2008	8,490	4,744,720	36,251	10,752	54	55,547	
Comprehensive income:							
Net income				1,560		1,560	\$ 1,560
Other comprehensive income (loss), net of tax: (see note 2)							
Net change in unrealized gains (losses) on available-for-sale investment securities					(433)	(433)	(433)
Total comprehensive income							<u>\$ 1,127</u>
Stock-based compensation expense			11			11	
Preferred stock dividends				(176)		(176)	
Accretion of preferred stock discount	59			(59)		-	
Cash dividends - \$.18 per share				(854)		(854)	
Balance, June 30, 2009	<u>\$ 8,549</u>	<u>4,744,720</u>	<u>\$ 36,262</u>	<u>\$ 11,223</u>	<u>\$ (379)</u>	<u>\$ 55,655</u>	

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)	Six Months Ended June 30,	
	2009	2008
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income	\$ 1,560	\$ 814
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	189	424
Other than temporary impairment on investment securities	-	61
Loss on disposal of bank premises and equipment	33	9
Net increase in deferred loan fees	523	151
Provision for loan losses	1,000	335
Net gain on available for sale investment securities	(28)	-
Dividends on Federal Home Loan Bank stock	(114)	(35)
Net change in accrued interest receivable and other assets	(1,142)	208
Net change in accrued interest payable and other liabilities	109	(20)
Stock-based compensation expense	11	9
Net cash from operating activities	2,141	1,956
Cash flows from investing activities:		
Decrease in time deposits in banks	-	80
Purchases of available-for-sale investment securities	(22,000)	(24,731)
Proceeds from sales of available-for-sale investment securities	537	-
Proceeds from calls and maturities of available-for-sale investment securities	29,880	13,994
Proceeds from calls of held to maturity investment securities	-	5,000
Purchase of Federal Home Loan Bank stock	(339)	(667)
Proceeds from the redemption of Federal Home Loan Bank stock	454	454
Net change in loans	(1,948)	(5,228)
Purchases of bank premises and equipment, net	(103)	(82)
Net cash from investing activities	6,481	(11,180)

(Continued)

**SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30,	
(In thousands)	2009	2008
	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Net increase (decrease) in demand, NOW, savings and money market deposits	8,503	(7,677)
Net change in certificates of deposit	(4,911)	(11,705)
Net change in short term FHLB advances	(5,470)	21,445
Repayment of long term FHLB advances	(7,000)	-
Repurchase of common stock	-	(9)
Dividends paid on common stock	(854)	(854)
Dividends paid on preferred stock	(176)	-
	(9,908)	1,200
Net change in cash and cash equivalents	(1,286)	(8,024)
Cash and cash equivalents at beginning of year	3,650	12,805
Cash and cash equivalents at end of period	\$ 2,364	\$ 4,781
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,193	\$ 5,224
Income taxes	\$ 2,485	\$ 160

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the “Bank” or “the Bank”) received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Bank was organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings. The Bank was incorporated on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Healdsburg, which opened on July 13, 2009 upon the closing of the Windsor location. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans. The Bank utilizes its subsidiary Alto Service Corporation for its deed of trust services.

The consolidated financial statements as of June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 are unaudited. In the opinion of management, these unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring accruals necessary to present fairly the consolidated financial statements of the Bank.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited consolidated financial statements do not include all disclosures associated with the Bank's consolidated annual financial statements and notes thereto and accordingly, should be read in conjunction with the consolidated financial statements and notes thereto included in the Bank's Annual Report for the year ended December 31, 2008 on Form 10-K on file with the FDIC (Form 10-K may be found at www.summitstatebank.com).

The accompanying accounting and reporting policies of the Bank and subsidiary conform to U.S. Generally Accepted Accounting Principles and prevailing practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alto Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Earnings (loss) Per Common Share

Basic earnings (loss) per common share (EPS), which excludes dilution, is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and warrants, result in the issuance of common stock which share in the earnings of the Bank. Earnings (loss) and dividends per common share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

The factors used in the earnings per share computation follow:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
(in thousands except earnings per share)				
Net income	\$ 713	\$ 584	\$ 1,560	\$ 814
Less: preferred dividends and discount accretion	138	-	235	-
Net income available for common shareholders	\$ 575	\$ 584	\$ 1,325	\$ 814
Weighted average common shares				
Outstanding for basic EPS	4,745	4,745	4,745	4,745
Dilutive effect of:				
Options	2	-	1	-
Warrants	17	-	3	-
Adjusted weighted average common shares outstanding for diluted EPS	4,764	4,745	4,749	4,745
Basic earnings per common share	\$ 0.12	\$ 0.12	\$ 0.28	\$ 0.17
Diluted earnings per common share	\$ 0.12	\$ 0.12	\$ 0.28	\$ 0.17

Recent Accounting Pronouncements

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends existing guidance for determining whether impairment is other-than-temporary for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The impact of adoption of this Statement on April 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The impact of adoption of this Statement on April 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

In April 2009, the FASB issued Staff Position (FSP) No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009. The impact of adoption of this Statement on April 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events*. The objective of this Statement is to establish principles and requirements for subsequent events. Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, nonrecognized subsequent events). This Statement is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The impact of adoption of this Statement was not material to the Bank's consolidated financial condition or results of operations.

2. COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income (loss) ("OCI"). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale. All items reported in other comprehensive income (loss) are reported net of tax. Following is a summary of other comprehensive income (loss) for the three and six months ended June, 2009 and 2008:

	Three Months Ended June 30	
	2009	2008
Net Income	\$ 713,000	\$ 584,000
Change in securities available-for-sale:		
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(504,000)	(692,000)
Other-than-temporary impairment on available for sale investments associated with credit loss realized in income	-	61,000
Net unrealized (gains) losses	(504,000)	(631,000)
Income tax expense (benefit)	(214,000)	(243,000)
Total other comprehensive income (loss)	(290,000)	(388,000)
Comprehensive Income	<u>\$ 423,000</u>	<u>\$ 196,000</u>

	Six Months Ended June 30	
	2009	2008
Net Income	\$ 1,560,000	\$ 814,000
Change in securities available-for-sale:		
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(716,000)	(707,000)
Other-than-temporary impairment on available for sale investments associated with credit loss realized in income	-	61,000
Reclassification adjustment for (gains) losses realized in income on available-for-sale securities	(28,000)	-
Net unrealized (gains) losses	(744,000)	(646,000)
Income tax expense (benefit)	(311,000)	(248,000)
Total other comprehensive income (loss)	(433,000)	(398,000)
Comprehensive Income	<u>\$ 1,127,000</u>	<u>\$ 416,000</u>

3. REGULATORY CAPITAL

The Bank's actual and required capital amounts and ratios consisted of the following:

	June 30, 2009	
	Amount	Ratio
<u>Tier 1 Leverage Ratio</u>		
Summit State Bank	\$ 51,869,000	14.7%
Minimum requirement for "Well-Capitalized" institution.....	\$ 17,656,000	5.0%
Minimum regulatory requirement.....	\$ 14,125,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>		
Summit State Bank	\$ 51,869,000	17.7%
Minimum requirement for "Well-Capitalized" institution.....	\$ 17,596,000	6.0%
Minimum regulatory requirement.....	\$ 11,731,000	4.0%
<u>Total Risk-Based Capital Ratio</u>		
Summit State Bank	\$ 55,551,000	18.9%
Minimum requirement for "Well-Capitalized" institution.....	\$ 29,327,000	10.0%
Minimum regulatory requirement.....	\$ 23,462,000	8.0%

4. STOCK OPTIONS

The shareholders approved the 2007 stock option plan ("Plan") on May 21, 2007. The Plan reserved 150,000 shares of common stock for issuance to directors and employees. The Plan requires that the option exercise price may not be less than the fair market value of the stock at the date the option is granted. The option expiration dates are determined by the Board of Directors, but may not be later than ten years from the date of grant. During the first quarter of 2009, 10,000 shares were granted at an exercise price of \$4.65 and no shares were granted during the second quarter of 2009. All the shares have a term of ten years. There were 65,666 options outstanding as of June 30, 2009.

5. COMMITMENTS AND CONTINGENCIES

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial condition or results of operations of the Bank.

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's loan policy requires sufficient collateral to be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral for the lending portfolio consists primarily of real estate, accounts receivable, inventory and other financial instruments.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These

financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheet.

Commitments to extend credit, which totaled \$15,675,000 and \$19,079,000 at June 30, 2009 and December 31, 2008, are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit, which totaled \$0 and \$197,000 at June 30, 2009 and December 31, 2008, respectively, are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at June 30, 2009 and December 31, 2008. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

6. FAIR VALUE

FASB Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of most securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2009			
	(In thousands)			
	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Government agencies	\$ 27,722	\$ -	\$ 27,722	\$ -
Mortgage-backed securities	2,208	-	2,208	-
Pooled trust preferred securities	17	-	17	-
Government agencies stock	38	38	-	-
Other	2,065	2,065	-	-
Total securities available -for-sale	<u>\$ 32,050</u>	<u>\$ 2,103</u>	<u>\$ 29,947</u>	<u>\$ -</u>

	Fair Value Measurements at December 31, 2008			
	(In thousands)			
	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Government agencies	\$ 36,143	\$ -	\$ 36,143	\$ -
Mortgage-backed securities	2,464	-	2,464	-
Pooled trust preferred securities	18	-	18	-
Government agencies stock	24	24	-	-
Other	2,534	2,534	-	-
Total securities available -for-sale	<u>\$ 41,183</u>	<u>\$ 2,558</u>	<u>\$ 38,625</u>	<u>\$ -</u>

7. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments at June 30, 2009 and December 31, 2008:

Cash and cash equivalents: For cash and cash equivalents, consisting of cash, due from banks and federal funds sold, the carrying amount is estimated to be fair value.

Investment securities: As discussed in greater detail in Note 6, for investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using

quoted market prices for similar securities and indications of value provided by brokers. The carrying amount of accrued interest receivable approximates its fair value.

Loans, net of allowance: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness (without considering widening credit spreads due to market illiquidity). The allowance for loan losses is considered to be a reasonable estimate of discount for credit risk. The carrying amount of accrued interest receivable approximates its fair value.

Federal Home Loan Bank stock: The fair value for Federal Home Loan Bank Stock is not determinable as there are restrictions on its transferability.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates being offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Short-term borrowings and long-term debt: The fair values of fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates being offered on similar debt instruments. The fair values of variable rate borrowings are based on carrying value. The carrying amount of accrued interest payable approximates its fair value.

Commitments to fund loans/standby letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The differences between the carrying value of commitments to fund loans or standby letters of credit and their fair value are not significant and, therefore, are not included in the following table.

	June 30, 2009		December 31, 2008	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 2,364	\$ 2,364	\$ 3,650	\$ 3,650
Investment securities	32,050	32,050	41,183	41,183
Loans, net of allowance	300,070	319,346	299,645	339,987
Investment in FHLB stock	2,942	N/A	2,942	N/A
Accrued interest receivable	1,702	1,702	2,050	2,050
Financial liabilities:				
Deposits	\$ 256,355	\$ 257,267	\$ 252,763	\$ 254,093
FHLB advances	42,950	43,900	55,420	56,664
Accrued interest payable	211	211	345	345

8. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at June 30, 2009 and December 31, 2008 consisted of the following:

June 30, 2009				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available -for-sale:				
Government agencies	\$ 28,355	\$ 46	\$ (679)	\$ 27,722
Mortgage-backed securities	2,121	87	-	2,208
Pooled trust preferred securities	17	-	-	17
Government agencies stock	24	14	-	38
Other	2,182	32	(149)	2,065
Total securities available -for-sale	<u>\$ 32,699</u>	<u>\$ 179</u>	<u>\$ (828)</u>	<u>\$ 32,050</u>

December 31, 2008				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available -for-sale:				
Government agencies	\$ 35,998	\$ 145	\$ -	\$ 36,143
Mortgage-backed securities	2,376	88	-	2,464
Pooled trust preferred securities	18	-	-	18
Government agencies stock	24	-	-	24
Other	2,672	152	(290)	2,534
Total securities available -for-sale	<u>\$ 41,088</u>	<u>\$ 385</u>	<u>\$ (290)</u>	<u>\$ 41,183</u>

Net unrealized gains (losses) on available-for-sale investment securities totaling (\$649,000) and \$95,000 are recorded, net of (\$270,000) and \$41,000 in tax expense (benefit), as accumulated other comprehensive income (loss) within shareholders' equity at June 30, 2009 and December 31, 2008. There were no sales or transfers of available-for-sale or held-to-maturity investment securities for the year ended December 31, 2008. Proceeds from the sale of available-for-sale securities totaled \$537,000 for the six months ended June 30, 2009 with gross gains of \$81,000 and gross losses of \$53,000.

Investment securities with unrealized losses at June 30, 2009 and December 31, 2008 are summarized and classified according to the duration of the loss period as follows:

June 30, 2009						
(in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Government agencies	\$ 21,987	\$ (679)	\$ -	\$ -	21,987	\$ (679)
Other	-	-	1,043	(149)	1,043	(149)
	<u>\$ 21,987</u>	<u>\$ (679)</u>	<u>\$ 1,043</u>	<u>\$ (149)</u>	<u>\$ 23,030</u>	<u>\$ (828)</u>

December 31, 2008						
(in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Other	\$ 1,613	\$ (290)	\$ -	\$ -	\$ 1,613	\$ (290)
	<u>\$ 1,613</u>	<u>\$ (290)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,613</u>	<u>\$ (290)</u>

At June 30, 2009, the Bank held 12 government agency securities which were in a loss position for less than twelve months due to market value changes resulting from market yield changes. There were 4 corporate investment securities that were in a loss position for more than twelve months and consisted of securities of banks which are currently rated as investment grade. Management periodically evaluates each investment security for other than temporary impairment, relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. The Bank recorded \$61,000 in other than temporary impairment losses (OTTI) in the consolidated statements of income for the three and six months ended June 30, 2008 on an investment in pooled trust preferred securities for which the market value had declined significantly due to the negative trend in the amount of underlying trust preferred securities that had announced the deferment of interest. As of June 30, 2009, the remaining carrying value of this investment was \$17,000. No OTTI was recorded in the first six months of 2009. In concluding that no OTTI needed to be recognized at June 30, 2009, management determined that they do not intend to sell and it is not more likely than not that any impaired debt securities will be required to be sold before recovery of the amortized cost basis. Further, none of the declines in market value are believed to be related to credit risk and management expects full recovery of the amortized costs basis by the investment securities maturity dates.

The amortized cost and estimated fair value of investment securities at June 30, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available for Sale	
	Amortized Cost	Estimated Fair Value
Within one year	\$ 17	\$ 17
After one year through five years	500	525
After five years through ten years	1,683	1,615
After ten years	28,354	27,647
	<u>30,554</u>	<u>29,804</u>
Investment securities not due at a single maturity date:		
Government agencies stock	24	38
Mortgage-backed securities	2,121	2,208
	<u>\$ 32,699</u>	<u>\$ 32,050</u>

9. SUBSEQUENT EVENT

Management has performed an evaluation of subsequent events through August 12, 2009 and no material subsequent events were identified, other than the declaration of cash dividends.

On July 27, 2009, the Board of Directors declared a \$.09 per common share cash dividend to shareholders of record at the close of business on August 11, 2009, to be paid on August 21, 2009 and a preferred dividend of \$106,250 payable on August 15, 2009.

Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information about the financial condition of the Bank at June 30, 2009 and December 31, 2008, and results of operations for the three and six months ended June 30, 2009 and 2008. The following analysis should be read in conjunction with the consolidated financial statements of the Bank and the notes thereto appearing elsewhere in the report, which were prepared in accordance with U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three and six months ended June 30, 2009 and 2008 are unaudited. In the opinion of management of the Bank, the interim financial information presented reflects all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair representation of the results of such periods.

All references to yields, cost of liabilities and net interest margin are annualized for the periods discussed. References to preferred dividends include cash dividends declared on the preferred stock and accretion of preferred stock discount.

Forward Looking Statements. This discussion includes 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, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank’s management. When used in this discussion, the words “anticipate,” “believe,” “estimate,” “expect,” “should,” “intend,” “project,” “may,” “will,” “would,” variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Bank’s mission and vision. Factors which may cause actual results to vary from forward-looking statements include, but are not limited to, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the expansion of our business, legislative and regulatory changes, government monetary and fiscal policies, real estate valuations, competition in the financial services industry, demographic changes, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this discussion.

This discussion contains certain forward-looking information about us. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;

- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the war in Iraq;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all;
- the integration of any future acquired businesses costs more, takes longer or is less successful than expected; and
- regulatory approvals for announced or future acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," in our Registration Statement on Form 10, as amended (the "Form 10"), and in our Annual Report on Form 10-K on file with the Federal Deposit Insurance Corporation ("FDIC") and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

We caution that these statements are further qualified by important factors, in addition to those under "Risk Factors" in our Form 10 and in our Annual Report on Form 10-K and elsewhere in this report, which could cause actual results to differ significantly from those in the forward-looking statements, including, among other things, economic conditions and other risks.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q and 8-K.

Critical Accounting Policies. The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, consideration of goodwill impairment, and fair values of securities available for sale and consideration of potential other than temporary impairment.

The allowance for loan losses is determined first and foremost by promptly identifying potential credit weaknesses that could jeopardize repayment. The Bank's process for evaluating the adequacy of the allowance for loan losses includes determining estimated loss percentages for each credit based on the Bank's historical loss experience and other factors in the Bank's credit grading system and accompanying risk analysis for determining an adequate level of the allowance. The risks are assessed by rating each account based upon paying habits, loan to value ratio, financial condition and level of classifications. The allowance for loan losses was \$4,415,000 at June 30, 2009 and \$4,016,000 at December 31, 2008.

We assess the carrying value of our goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of our goodwill, we assess the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified. Statement of Financial Accounting Standard (SFAS) No. 142, "Accounting for Goodwill and Other Intangible Assets," establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. SFAS No. 142 requires an annual evaluation of goodwill for impairment using various estimates and assumptions. The market price at the close of business on June 30, 2009 was \$6.75 per common share compared to a book value, net of preferred stock, of \$10.06 per common share. The Bank believes the lower market price in relation to book value is due to the overall decline in the financial industry sector and is not specific to the Bank. The market price per common share at June

30, 2009 reflects a \$47% increase over the March 31, 2009 market price and demonstrates the ability of the stock price to increase significantly in the near future.

Further, in 2008, the Bank engaged an independent third party specialist to perform an impairment test of its goodwill. The evaluation included three approaches: 1) Multiple of tangible book value, based on recent bank acquisitions in California 2) Multiple of equity return and 3) Premium on deposits. The Bank took an average of these approaches and also considered the Bank's excess regulatory capital level above the required leverage capital ratio. The impairment test was performed as of November 30, 2008 based on June 30, 2008 data and resulted in an implied fair value for the Bank sufficiently above the book value to support the current carrying value of goodwill. As the Bank's stock price per common share is currently less than its book value per common share, it is reasonably possible that management may conclude that goodwill, totaling \$4.1 million at June 30, 2009, is impaired as a result of a future assessment. If our goodwill is determined to be impaired, the related charge to earnings could be material.

The fair values of most securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

We are obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment to our investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income or loss, net of tax. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment level factors we examine to assess impairment include the severity and duration of the unrealized loss, the nature, financial condition and results of operations of the issuers of the securities and whether there has been any cause for default on the securities or any adverse change in the rating of the securities by the various rating agencies. Additionally, we reexamine our financial resources and our overall intent and ability to hold the securities until their fair values recover.

Earnings Summary
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 3,872	\$ 3,062	\$ 7,574	\$ 5,709
Provision for loan losses	550	180	1,000	335
Non-interest income	225	221	631	511
Non-interest expense	2,315	2,112	4,550	4,502
Provision for Income taxes	519	407	1,095	569
Net income	<u>\$ 713</u>	<u>\$ 584</u>	<u>\$ 1,560</u>	<u>\$ 814</u>
Less: preferred dividends	138	-	235	-
Net income available for common stockholders	<u>\$ 575</u>	<u>\$ 584</u>	<u>\$ 1,325</u>	<u>\$ 814</u>
Selected per Share Data:				
Basic earnings per common share	\$ 0.12	\$ 0.12	\$ 0.28	\$ 0.17
Diluted earnings per common share	\$ 0.12	\$ 0.12	\$ 0.28	\$ 0.17
Book value per common share (2)(3)	\$ 10.06	\$ 9.96	\$ 10.06	\$ 9.96
Selected Balance Sheet Data:				
Assets	\$ 355,919	\$ 341,798	\$ 355,919	\$ 341,798
Loans, net	300,070	271,809	300,070	271,809
Deposits	256,355	229,637	256,355	229,637
Average assets	357,568	336,891	360,192	337,491
Average earnings assets	343,185	319,759	349,291	320,299
Average equity	56,085	47,731	56,368	47,759
Nonperforming loans	3,886	267	3,886	267
Total nonperforming assets	3,927	267	3,927	267
Selected Ratios:				
Return on average assets (1)	0.80%	0.70%	0.87%	0.49%
Return on average equity (1)	5.10%	4.92%	5.58%	3.43%
Return on average tangible equity (1)	5.50%	5.39%	6.02%	3.75%
Efficiency ratio	56.50%	64.33%	55.45%	72.38%
Net interest margin (1)	4.53%	3.84%	4.37%	3.58%
Tier 1 leverage capital ratio	14.7%	12.9%	14.7%	12.9%
Tier 1 risk-based capital ratio	17.7%	16.5%	17.7%	16.5%
Total risk-based capital ratio	18.9%	15.2%	18.9%	15.2%
Common dividend payout ratio (4)	74.26%	73.12%	64.45%	104.91%
Average equity to average assets	15.69%	14.17%	15.65%	14.15%
Nonperforming loans to total loans (2)	1.28%	0.10%	1.28%	0.10%
Nonperforming assets to total assets (2)	1.10%	0.08%	1.10%	0.08%
Allowance for loan losses to total loans (2)	1.45%	1.38%	1.45%	1.38%
Allowance for loan losses to nonperforming loans (2)	113.61%	1428.09%	113.61%	1428.09%

(1) Annualized.

(2) As of period end

(3) Total shareholders' equity less, preferred stock, divided by total common shares outstanding

(4) common dividends divided by net income available for common stockholders

Results of Operations

Three and Six months ended June 30, 2009 and June 30, 2008

Net Income

The Bank reports “net income” which reflects the results of its operations for the periods and “net income available for common stockholders” which is net income less preferred stock dividends declared and accretion of preferred stock discount during the periods. The Bank issued 8,500 shares of preferred stock in December 2008 and there was no preferred stock outstanding during the first six months of 2008.

For the three months ended June 30, 2009, net income was \$713,000, and net income available for common stockholders was \$575,000 compared to \$584,000 in net income available for common stockholders for the three months ended June 30, 2008. Earnings per diluted common share were \$0.12 for the quarter ended June 30, 2009 compared to \$0.12 for the quarter ended June 30, 2008. Annualized return on average assets was 0.80% for the second quarter of 2009 compared to 0.70% for the second quarter of 2008.

For the six months ended June 30, 2009 net income was \$1,560,000, and net income available for common stockholders was \$1,325,000 compared to \$814,000 in net income available for common stockholders for the six months ended June 30, 2008. Earnings per diluted common share were \$0.28 for the six months ended June 30, 2009 compared to \$0.17 for the six months ended June 30, 2008. Annualized return on average assets was 0.87% for the first six months of 2009 compared to 0.49% for the first six months of 2008.

Net Interest Income and Net Interest Margin

Net interest income increased \$810,000 or 26% to \$3,872,000 for the second quarter of 2009 compared to \$3,062,000 for the same quarter of 2008. The annualized net interest margin increased to 4.53% for the second quarter of 2009, compared to 3.84% for the second quarter of 2008.

Net interest income increased \$1,865,000 or 33% to \$7,574,000 for the six months ended June 30, 2009 compared to \$5,709,000 for the same period of 2008. The annualized net interest margin increased to 4.37% for the 2009 six month period, compared to 3.58% for the same period in 2008.

Both the quarter and six month period of 2009 benefited from the improved net interest margin that resulted from the decline in the cost of funds due to the decline in market rates paid on the Bank’s deposits and borrowings. Additionally, management implemented a strategy over the past year to lower its cost of funds by raising broker deposits when broker deposit rates were lower than the cost to raise similar deposits locally. This strategy has helped the Bank avoid competing with higher interest rates paid by a few institutions locally. Wholesale broker deposits were \$47,126,000 at June 30, 2009 compared to \$20,005,000 at June 30, 2008.

Average earning assets were \$343,185,000 for the second quarter of 2009, as compared to \$319,759,000 for the same quarter of 2008. The annualized yield on average earning assets was 6.18% and the annualized cost of average interest-bearing liabilities was 2.03% for the second quarter of 2009, as compared to the annualized yield on average earning assets of 6.69% and annualized cost of interest-bearing liabilities of 3.31% for the same quarter of 2008.

Average earning assets were \$349,291,000 for the first six months of 2009, as compared to \$320,299,000 for the same period of 2008. The annualized yield on average earning assets was 6.14% and the annualized cost of average interest-bearing liabilities was 2.15% for the first six months of 2009, as compared to the annualized yield on average earning assets of 6.77% and annualized cost of interest-bearing liabilities of 3.68% for the same period of 2008.

The following table presents condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

Average Balance Sheet and Analysis of Net Interest Income

(Dollars in thousands)

	Three Months Ended			Three Months Ended		
	June 30, 2009			June 30, 2008		
	Average Balance	Interest Income/ Expense	Average Rate (4)	Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest bearing deposits with banks	\$ 416	\$ -	0.00%	\$ 11	\$ -	0.00%
Taxable investment securities	38,535	446	4.64%	46,762	693	5.94%
Federal funds sold	85	-	0.00%	-	-	0.00%
Loans, net (1)	304,149	4,845	6.39%	272,986	4,643	6.82%
Total earning assets/interest income	<u>343,185</u>	<u>5,291</u>	<u>6.18%</u>	<u>319,759</u>	<u>5,336</u>	<u>6.69%</u>
Non-earning assets	18,868			20,939		
Allowance for loan losses	(4,485)			(3,807)		
Total assets	<u>\$ 357,568</u>			<u>\$ 336,891</u>		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	\$ 17,822	22	0.50%	\$ 13,155	25	0.76%
Savings and money market	36,688	103	1.13%	39,895	222	2.23%
Time deposits	183,131	1,024	2.24%	165,608	1,476	3.57%
FHLB advances	43,319	270	2.50%	57,063	551	3.87%
liabilities/interest expense	<u>280,960</u>	<u>1,419</u>	<u>2.03%</u>	<u>275,721</u>	<u>2,274</u>	<u>3.31%</u>
Non-interest bearing deposits	12,963			12,613		
Other liabilities	7,560			826		
Total liabilities	<u>301,483</u>			<u>289,160</u>		
Shareholders' equity	56,085			47,731		
Total liabilities and shareholders' equity	<u>\$ 357,568</u>			<u>\$ 336,891</u>		
Net interest income and margin (2)		<u>\$ 3,872</u>	4.53%		<u>\$ 3,062</u>	3.84%
Net interest spread (3)			4.15%			3.38%

- (1) The net amortization of deferred fees and costs on loans included in interest income was \$108,000 and \$239,000 for the three months ended June 30, 2009 and 2008, respectively.
- (2) Net interest margin is computed by dividing net interest income by average total earning assets.
- (3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest bearing liabilities.
- (4) Annualized.

Average Balance Sheet and Analysis of Net Interest Income

(Dollars in thousands)

	<u>Six Months Ended</u>			<u>Six Months Ended</u>		
	<u>June 30, 2009</u>			<u>June 30, 2008</u>		
	<u>Average</u>	<u>Interest</u>	<u>Average</u>	<u>Average</u>	<u>Interest</u>	<u>Average</u>
	<u>Balance</u>	<u>Income/</u>	<u>Rate (4)</u>	<u>Balance</u>	<u>Income/</u>	<u>Rate (4)</u>
		<u>Expense</u>			<u>Expense</u>	
Assets						
Interest earning assets:						
Interest bearing deposits with banks	\$ 161	\$ -	0.00%	\$ 9	\$ -	0.00%
Taxable investment securities	41,210	1,044	5.11%	44,864	1,325	5.94%
Federal funds sold	55	-	0.00%	4,010	69	3.46%
Loans, net (1)	307,865	9,589	6.28%	271,416	9,384	6.95%
Total earning assets/interest income	<u>349,291</u>	<u>10,633</u>	<u>6.14%</u>	<u>320,299</u>	<u>10,778</u>	<u>6.77%</u>
Nonearning assets	15,222			20,920		
Allowance for loan losses	(4,321)			(3,728)		
Total assets	<u>\$ 360,192</u>			<u>\$ 337,491</u>		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	\$ 16,056	44	0.55%	\$ 12,916	51	0.79%
Savings and money market	36,812	227	1.24%	40,281	498	2.49%
Time deposits	187,149	2,230	2.40%	173,332	3,466	4.02%
FHLB advances	47,287	558	2.38%	50,407	1,054	4.20%
liabilities/interest expense	<u>287,304</u>	<u>3,059</u>	<u>2.15%</u>	<u>276,936</u>	<u>5,069</u>	<u>3.68%</u>
Noninterest bearing deposits	12,202			11,941		
Other liabilities	4,318			855		
Total liabilities	<u>303,824</u>			<u>289,732</u>		
Shareholders' equity	<u>56,368</u>			<u>47,759</u>		
Total liabilities and shareholders' equity	<u>\$ 360,192</u>			<u>\$ 337,491</u>		
Net interest income and margin (2)		<u>\$ 7,574</u>	4.37%		<u>\$ 5,709</u>	3.58%
Net interest spread (3)			3.99%			3.09%

- (1) The net amortization of deferred fees and costs on loans included in interest income was \$186,000 and \$273,000 for the six months ended June 30, 2009 and 2008, respectively.
- (2) Net interest margin is computed by dividing net interest income by average total earning assets.
- (3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest bearing liabilities.
- (4) Annualized.

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. Changes not attributable solely to volume or rates are allocated proportionately between both variances.

	Volume and Yield/Rate Variances		
	(Dollars in thousands)		
	2009 Compared to 2008 for the Quarter		
	Ended June 30,		
	Change Due to		
	Net	Volume	Yield/Rate
Interest income:			
Taxable investment securities	(247)	(110)	(137)
Loans, net	<u>202</u>	<u>508</u>	<u>(306)</u>
Total interest income	(45)	398	(443)
Interest expense:			
Interest-bearing transaction	(3)	7	(10)
Savings and money market	(119)	(17)	(102)
Time deposits	(452)	143	(595)
FHLB advances	<u>(281)</u>	<u>(114)</u>	<u>(167)</u>
Total interest expense	(855)	19	(874)
Increase (decrease) in net interest income	<u>\$ 810</u>	<u>\$ 379</u>	<u>\$ 431</u>

Volume and Yield/Rate Variances

	2009 Compared to 2008 For The Six		
	Months Ended June 30,		
	Change Due to		
	Net	Volume	Yield/ Rate
Interest income:			
Taxable investment securities	(281)	(102)	(179)
Federal funds sold	(69)	(69)	0
Loans, net	205	1,188	(983)
Total interest income	(145)	1,017	(1,162)
Interest expense:			
Interest-bearing transaction	(7)	11	(18)
Savings and money market	(271)	(40)	(231)
Time deposits	(1,236)	258	(1,494)
FHLB advances	(496)	(62)	(434)
Total interest expense	(2,010)	167	(2,177)
Increase (decrease) in net interest income	\$ 1,865	\$ 850	\$ 1,015

Provision for Loan Losses

The Bank maintains an allowance for loan losses for losses that are expected to occur as an incidental part of the banking business. Write-offs of loans are charged against the allowance for loan losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to deterioration in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for loan losses are made through a charge against income referred to as the "provision for loan losses".

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accruals loans, trends in loan volume, effects of any changes in the lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries for the prior eight quarters.

For the three and six months ended June 30, 2009, the provision for loan losses was \$550,000 and \$1,000,000 and \$180,000 and \$335,000 for three and six months ended June 30, 2008. The provision for loan losses reflects changes in the general real estate economy and adjustments in various qualitative factors related to measurement of the adequacy of the allowance for loan losses. During the three and six month periods of 2009, there were \$627,000 and \$651,000 in loan charge-offs compared to \$143,000 for the second quarter and six month period ended June 30, 2008. There were \$50,000 in loan recoveries for the second quarter and first six month of 2009 and no loan recoveries during the first six months of 2008. The provisions for loan losses for the periods reflect management's assessment of the negative current economic trends and of the net loan charge-offs during 2009. See Balance Sheet Activity – Nonperforming Assets and Allowance for Loan Losses for additional discussion.

Non-interest Income

Non-interest income totaled \$225,000 and \$221,000 for the second quarter of 2009 and 2008. Non-interest income consists primarily of service charges on deposit accounts and office lease income. Service charges on deposit accounts were \$98,000 for the second quarter of 2009 compared to \$101,000 for the same quarter in 2008. Office lease income was \$114,000 and \$150,000 for the second quarter of 2009 and 2008.

For the six month periods, non-interest income was \$631,000 in 2009 and \$511,000 in 2008. Deposit service charges was \$199,000 in 2009 compared to \$214,000 in 2008. Office lease income was \$339,000 in 2009 compared to \$309,000 in 2008.

The Bank recorded additional rent income from an early lease termination during the first quarter of 2009. The Bank's headquarters building which is partially leased to others is fully occupied at June 30, 2009, however rental rates are less than those existing in 2008. Future quarterly rental income in 2009 is expected to be less than similar periods during 2008.

The Bank recognized \$28,000 in net gains on security sales during the first quarter of 2009. There were no security sales in the second quarter of 2009 and first six months of 2008. The Bank recorded \$61,000 in other than temporary impairment losses for the three and six months ended June 30, 2008 on an investment in pooled trust preferred securities for which the market value had declined significantly due to the negative trend in the amount of underlying trust preferred securities that had announced the deferment of interest. As of June 30, 2009, the remaining carrying value of this investment was \$17,000.

Non-interest Expense

For the second quarter of 2009, non-interest expense increased \$203,000, or 10%, to \$2,315,000, compared to \$2,112,000 for the same quarter in 2008. The first six months of 2009 had non-interest expense of \$4,550,000 compared to \$4,502,000 in the first six months of 2008.

Salaries and employee benefits expense and occupancy and equipment expenses remained relatively flat during the quarter and six month periods of 2009 compared to 2008. Other expenses increased \$211,000 (33%) and \$199,000 (15%) for the second quarter and first six months of 2009 compared to same periods in 2008, respectively. The increase in other expenses is primarily attributable to higher FDIC insurance premiums during 2009. The Bank recorded \$245,000 in FDIC insurance premiums for the second quarter of 2009 composed of \$92,000 in regular assessment and \$153,000 in a special assessment payable on September 30, 2009. FDIC insurance premiums were \$296,000 for the first six months of 2009. The Bank recorded \$7,000 in FDIC insurance premiums for the first six months of 2008 as it benefited from a premium credit. The FDIC may levy special assessments in future periods if it deems it necessary to build the insurance fund.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated tax rates during the financial period covered. The provision for income taxes and effective Federal and State corporate income tax rates for the three and six months ended June 30, 2009 were \$519,000 (42.1%) and \$1,095,000 (41.2%) compared to \$407,000 (41.1%) and \$569,000 (41.1%) for the similar periods ended June 30, 2008.

Balance Sheet Activity

At June 30, 2009 and December 31, 2008

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Available-for-sale investment securities carried at fair value totaled \$32,050,000 at June 30, 2009 and comprised 9% of total assets compared to amortized cost of \$32,699,000. At December 31, 2008, investment securities comprised 11% of total assets with a fair value of \$41,183,000 and amortized cost of \$41,088,000. Changes in the fair value of available-for-sale securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income (loss)," net of tax, and carried as accumulated other comprehensive income or loss, net of tax, within shareholders' equity until realized unless any declines in value below amortized cost are the result of other than temporary impairment.

There were \$22,000,000 in par value purchases of government agency bonds and \$29,880,000 in par value calls and maturities of government agency bonds during the first six months of 2009. The purchases were at yields

approximately 1% lower than the bonds that were called. The Bank sold \$537,000 in corporate debt securities in the first quarter of 2009 for a net gain of \$28,000.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At June 30, 2009, investment securities with fair value of \$20,748,000, or 65% of the investment portfolio, were pledged to secure time deposits from the State of California. At December 31, 2008, investment securities with fair value of \$19,624,000, or 48% of the investment portfolio, were pledged. At June 30, 2009, securities with par value of \$14,000,000 were callable within one year. Management expects an increased number of calls of the bonds in the Bank's portfolio and the yield on the portfolio will likely decline in future months as a result.

The Bank does not own securities of any single issuer (other than U.S. Government agencies and corporations) whose aggregate book value was in excess of 10% of the Bank's total shareholders' equity at the time of purchase.

Loan Portfolio

The following table shows the composition of the loan portfolio by amount, percentage of total loans for each major loan category and the dollar volume and percentage change between the dates indicated.

(in thousands)	<u>June 30, 2009</u>	%	<u>December 31,</u> <u>2008</u>		Net Change	Percent Change
Commercial & Agricultural	69,469	22.6%	\$ 69,359	22.7%	\$ 110	0.2%
Real Estate - Commercial	130,263	42.4%	126,690	41.4%	3,573	2.8%
Real Estate-Construction	5,300	1.7%	6,800	2.2%	(1,500)	-22.1%
Real Estate - Single family units	56,743	18.5%	53,375	17.4%	3,368	6.3%
Real Estate - Land Loans	12,523	4.1%	14,857	4.9%	(2,334)	-15.7%
Real Estate-Multifamily	22,657	7.4%	23,159	7.6%	(502)	-2.2%
Consumer	5,336	1.7%	5,253	1.7%	83	1.6%
Lease financing	4,854	1.6%	6,305	2.1%	(1,451)	-23.0%
	<u>307,145</u>	<u>100%</u>	<u>305,798</u>	<u>100%</u>	<u>1,347</u>	<u>0.4%</u>
LESS:						
Allowance for Loan Losses	(4,415)		(4,016)		(399)	9.9%
Deferred Loan Fees	(2,660)		(2,137)		(523)	24.5%
Total Loans, Net	<u>\$ 300,070</u>		<u>\$ 299,645</u>		<u>\$ 425</u>	<u>0.1%</u>

Real estate construction loans and land loans outstanding have declined since December 31, 2008 due to pay-offs and lower volume of new construction loan originations. Commercial real estate loans increased through the purchase of whole loans from other institutions with properties located in the San Francisco bay area. Single family residential loans increased through local originations of predominantly jumbo mortgage loans.

At June 30, 2009, the Bank had approximately \$15,675,000 in undisbursed loan commitments, of which approximately \$441,000 related to real estate construction, land and commercial real estate loans. At December 31, 2008, the Bank had approximately \$19,079,000 in undisbursed loan commitments, of which approximately \$6,524,000 related to real estate construction loans and commercial real estate loans.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the original terms of the obligation and consist of nonaccrual loans, accruing loans 90 days or more past due and restructured loans. Nonperforming loans at June 30, 2009 consisted of seven loans totaling \$3,886,000 or 1.28% of gross loans compared to \$3,642,000 or 1.21% of gross loans at March 31, 2009. Changes between March 31, 2009 and June 30, 2009 mainly included \$627,000 in loan charge-offs, \$1,218,000 in loans added to nonaccrual status during the second quarter which is net of a \$600,000 charge-off and collection of two nonaccrual loans outstanding at March 31 of \$599,000. The nonperforming loans at June 30, 2009 included \$421,000 backed by guarantees by the Small Business Administration in the amount of \$316,000. A majority of the nonperforming loans have real estate as collateral. There was no other real estate owned at June 30, 2009.

In addition to the nonperforming loans discussed above, the Bank has nonperforming investment securities with an adjusted book value of \$41,000 which have suspended payment of interest or dividends at June 30, 2009.

At June 30, 2009, there were loan relationships primarily secured by commercial real estate totaling \$6,640,000 with respect to loans that were not classified as nonperforming and that have shown some weakness but continue to perform according to the terms of the loans.

Allowance for Loan Losses

The Bank maintains the allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision for loan losses charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge off will be made to reduce the loan balance to a level equal to the liquidation value of the collateral.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level and a migration analysis of historical losses and recoveries for the prior eight quarters.

In addition to the allowance for loan losses, the Bank maintains an allowance for undisbursed loan commitments of \$27,000 reported in other liabilities on the consolidated balances sheet as of June 30, 2009 and \$30,000 at December 31, 2008.

The allowance for loan losses was \$4,415,000 at June 30, 2009 compared to \$4,442,000 at March 31, 2009 and \$4,016,000 at December 31, 2008. The activity in the allowance for loan losses during the second quarter and first six months of 2009 included a provision for loan losses of \$550,000 and \$1,000,000 and charge-offs of \$627,000 and \$651,000, and recoveries of \$50,000 in the second quarter. At June 30, 2009, March 31, 2009 and December 31, 2008, the Bank's allowance for loan losses was 1.45%, 1.47% and 1.32% of outstanding loans, respectively.

The following table summarizes the activity in the Allowance for Loan Losses during the periods indicated.

SUMMARY OF ACTIVITY IN ALLOWANCE FOR LOAN LOSSES
(Dollars in thousands)

	Six Months ended June 30, 2009	Year Ended December 31, 2008
Balance at beginning of period	\$ 4,016	\$ 3,621
Charge-offs:		
Commercial and agricultural	627	431
Real estate--construction and land development	-	-
Real estate--mortgage	-	-
Installment loans to individuals	24	8
Leases	-	19
Total loans charged-off	651	458
Recoveries:		
Commercial and agricultural	50	168
Real estate--construction and land development	-	-
Real estate--mortgage	-	-
Installment loans to individuals	-	-
Leases	-	-
Total recoveries	50	168
Net loans charged-off	601	290
Provision for loan losses	1,000	685
Allowance for loan losses - end of period	\$ 4,415	\$ 4,016
Loans:		
Average loans outstanding during period, net of unearned income	\$ 307,865	\$ 279,140
Total loans at end of period, net of unearned income	\$ 304,485	\$ 303,661
Ratios:		
Net loans charged-off to average net loans (1)	0.39%	0.10%
Net loans charged-off to total loans (1)	0.40%	0.10%
Allowance for loan losses to average net loans	1.43%	1.44%
Allowance for loan losses to total loans	1.45%	1.32%
Net loans charged-off to beginning allowance for loan losses (1)	30.18%	8.01%
Net loans charged-off to provision for loan losses	60.10%	42.34%

Allowance for Loan Losses

(in thousands)	June 30,		December 31,	
	2009		2008	
	<u>Allowance Allocation</u>	<u>Amount of Category Loans to Total Loans</u>	<u>Allowance Allocation</u>	<u>Amount of Category Loans to Total Loans</u>
Commercial & agricultural	\$ 1,662	22.6%	\$ 1,285	22.7%
Real estate - commercial	924	42.4%	739	41.4%
Real estate - construction	45	1.7%	41	2.2%
Real estate - single family units	94	18.5%	84	17.4%
Real estate - land loans	360	4.1%	135	4.9%
Real estate - multifamily	92	7.4%	71	7.6%
Consumer	76	1.7%	259	1.7%
Lease financing	49	1.6%	63	2.1%
Other qualitative factors	735		735	
Unallocated	378		604	
Total	\$ 4,415	100%	\$ 4,016	100%

(1) The allocation for December 31, 2008 is revised to conform to the June 30, 2009 presentation.

The allowance allocation to real estate loan categories is highly dependent on the estimated real estate collateral values that secure specific troubled loans. The specific loans being evaluated at one period versus another can result in variations in the allocations. The increase in allocation of the allowance for loan losses to the commercial and agriculture and the real estate-commercial portfolio at June 30, 2009 as compared to December 31, 2008, was primarily attributable to the changes in the economy and its effect on particular borrowers and the outstanding balances by category. The increase in allowance allocation to land loans was primarily due to the economy's impact on the borrowers. The decline in allowance allocation to consumer loans is attributable to a decline in problem loans within the consumer loan category.

The allocation of the allowance for loan losses to the other qualitative factors category is due to management's assessment of various qualitative factors. Qualitative factors included the size of individual credits, concentrations and general economic conditions. Management also considers these qualitative factors in their evaluation of the adequacy of the allowance for loan losses. An unallocated allowance can arise from fluctuations in the amount of classified and nonperforming loans ("changes in credit grades") between periods.

Deposits

At June 30, 2009, the Bank had a deposit mix of 73% in time deposits, 15% in money market and savings accounts, and 12% in demand accounts. At December 31, 2008, the Bank had a deposit mix of 76% in time deposits, 14% in money market and savings accounts, and 10% in demand accounts.

At June 30, 2009 and December 31, 2008, the State of California had \$35,000,000 and \$40,000,000, respectively, in time deposits with the Bank with maturities of 3 to 6 months and collateralized by investment securities, letters of credit issued by the Federal Home Loan Bank and mortgage loans. These deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. At June 30, 2009 the Bank had \$66,593,000 in brokered time deposits, this compares to \$66,403,000 in brokered time deposits at December 31, 2008. The brokered deposits consisted of \$47,126,000 in wholesale brokered deposits at June 30, 2009 compared to \$47,615,000 in wholesale brokered deposits at December 31, 2008. The remaining brokered deposits were raised locally from the Bank's customers through a reciprocal deposit placement service called CDARS which is classified as brokered deposits for FFIEC Call Report purposes.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, Federal funds sold,

other short term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan and investment securities sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB, and access to brokered certificates of deposit are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. The policy of the Board of Directors is to maintain sufficient capital at not less than the “well-capitalized” thresholds established by banking regulators. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank’s liquid assets, defined as cash and cash equivalents, demand deposits with banks and the carrying value of unpledged available-for-sale investment securities, totaled \$13,665,000 and constituted 4% of total assets at June 30, 2009 compared to \$23,478,000 or 6% of total assets at March 31, 2009 and \$25,209,000 or 7% of total assets at December 31, 2008. The decline in liquid assets was the result of calls on investment securities during the quarter which were not replaced due to the current lower market rates. See Balance Sheet Activity – Investment Portfolio for additional discussion.

Although the Bank’s sources of liquidity include liquid assets, the Bank maintains lines of credit with the Federal Home Loan Bank and other correspondent banks. The total of these lines of credit were \$100 million at June 30, 2009 and December 31, 2008, of which \$43 million in Federal Home Loan Bank advances were outstanding at June 30, 2009 and \$55 million were outstanding at December 31, 2008. The Bank actively utilizes its borrowing capacity with the Federal Home Loan Bank to manage liquidity as well as to provide a funding alternative to time deposits if the Federal Home Loan Bank’s interest rates and terms are more favorable. The advances from the Federal Home Loan Bank can have maturities from overnight to multiple years. At June 30, 2009, \$31,950,000 was due within one year and \$11,000,000 had maturities greater than a year.

Federal regulations establish guidelines for calculating “risk-adjusted” capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total risk-based capital ratio of 8.0% and Tier 1 risk-based treasury capital (primarily shareholders’ equity less goodwill) of at least 4.0% of total qualifying capital. The Bank had total and Tier 1 risk-based capital ratios of 18.9% and 17.7% at June 30, 2009, and was “well-capitalized” under the regulatory guidelines.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average total assets. The minimum ratio for top-rated institutions may be as low as 3%. However, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 3% minimum. As of June 30, 2009, the Bank’s leverage ratio was 14.7%. Capital levels for the Bank remain above established regulatory capital requirements.

On December 19, 2008, the Bank issued 8,500 preferred stock shares to the United States Department of the Treasury under the Capital Purchase Program (the “CPP”) raising \$8,500,000 in additional capital. Participation in the CPP was encouraged by the Bank’s various regulatory agencies to strengthen bank capital ratios due to the uncertainty of the economic environment. Application for participation in the CPP had an expiration date set by the U.S. Treasury of November 14, 2008. The Bank’s board of directors decided to participate in the CPP and increase the Bank’s capital ratios based on the uncertainty of the economy and consideration of the potential for expansion with access to the additional capital.

Subsequent to the issuance of the preferred stock, the U.S. Treasury has issued various regulations that may impact the Bank. Additionally, there were warrants issued to the U.S. Treasury for 239,212 shares at a purchase price of \$5.33. The outlook for the general economy continues to be uncertain with state and local government budgets under stress and rising unemployment and declining real estate values while the Bank has expanded its marketing efforts in the local community, as a result of the current economy, it experienced below normal loan demand during the first six months of 2009. The board of directors regularly evaluates the purpose and need for the preferred stock.

Recent Regulatory Matters

The following is an update of significant regulatory developments since filing of the Bank’s Form 10-K for the fiscal year ended December 31, 2008 and should be read in conjunction with the regulatory developments described in the Form 10-K.

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the United States Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program (CPP), which provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications were required to be submitted by November 14, 2008 and were subject to approval by the Treasury. The CPP provided for a minimum investment of 1 percent of Total Risk-Weighted Assets, with a maximum investment equal to the lesser of 3 percent of Total Risk-Weighted Assets or \$25 billion. The perpetual

preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also required the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. Under EESA, certain temporary increases in FDIC deposit insurance were also approved. From October 3, 2008, until December 31, 2013 the amount of deposit insurance provided by the FDIC is increased from \$100,000 to \$250,000.

On October 14, 2008, the Federal Deposit Insurance Corporation (FDIC) announced the creation of the Temporary Liquidity Guarantee Program (TLGP) as part of a larger government effort to strengthen confidence and encourage liquidity in the nation's banking system. All eligible institutions were automatically enrolled in the program for the first 30 days at no cost. Organizations that do not wish to participate in the TLGP were required to opt out by December 5, 2008. After that time, participating entities will be charged fees. This program has two components. One guarantees newly issued senior unsecured debt of the participating organizations, within a certain limit, issued between October 14, 2008 and June 30, 2009. For such debts maturing beyond June 30, 2009, the guarantee will remain in effect until June 30, 2012. An annualized fee of 75 basis points multiplied by the amount of debt issued from October 14, 2008 (and still outstanding on December 6, 2008), through June 30, 2009 will be charged. The other component provides full FDIC insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount until December 31, 2009. An annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000 will be assessed on a quarterly basis to insured depository institutions that have not opted out of the TLGP. The Bank has decided to participate in the TLGP.

On February 27, 2009, the FDIC announced an interim rule which would call for a one-time emergency special assessment of 20 basis points to be imposed on June 30, 2009. The assessment would be payable on September 30, 2009, at the same time that the risk-based assessments for the second quarter of 2009 are collected.

The FDIC decided to charge the special assessment in light of increased losses to the Deposit Insurance fund (DIF) due to recent bank failures. The FDIC had previously initiated a recovery plan in late 2008 to restore declining DIF reserve ratios. However, the agency has concluded that its initial recovery plans would not be sufficient to meet its stated goal of returning the DIF reserve ratio to 1.15% within five years. Thus, in addition to the special assessment, the FDIC announced that it would extend its recovery plan for an additional two years (from five to seven years) in order to boost reserve ratios.

Under the interim rule, the FDIC also could impose an additional emergency assessment of up to 10 basis points if the agency estimates, after June 30, 2009, that the DIF reserve ratio could fall to a level that would "adversely affect public confidence" in the FDIC. This additional emergency assessment could also be imposed if the DIF reserve ratio falls to a level near or below zero. The FDIC stated it does not expect to impose the 10-basis point special assessment on top of the one-time 20 basis point special assessment that the agency imposed on June 30, 2009. However, the FDIC announced that the special assessment was reduced to 10 basis points of assets less capital. The Bank recorded \$153,000 of expense in the second quarter of 2009 for the special assessment.

In June 2009, the U.S. Treasury issued an Interim Final Rule regarding executive compensation and related requirements for TARP recipients. As contemplated by the American Recovery and Reinvestment Act of 2009, the rule clarifies executive compensation and expenditure limits on all previous and future TARP Capital Purchase Program participants, such as the Bank. Among other things, the rule prohibits the grant of stock options, the payment of bonuses and other incentive compensation and severance to certain of the TARP recipient's most highly paid employees depending on the amount of funds received (except in the form of restricted stock subject to specified limitations and conditions), and requires each TARP recipient to comply with certain other executive compensation related requirements.

In June 2009, President Obama's administration outlined a financial regulatory reform proposal that would, among other things, consolidate and shift certain regulatory authority among the existing federal bank regulatory agencies, eliminate the federal thrift charter and create a new Consumer Financial Protection Agency. Historically, similar proposals to consolidate one or more federal bank regulatory agencies have been made from time to time. Similarly, the California state legislature is considering a proposal to consolidate the Bank's California regulator, the Department of Financial Institutions, with the Department of Corporations and the Department of Real Estate. The Bank is unable to predict whether these proposals will be adopted and what impact, if any, the proposals would have on the Bank's business and operations if adopted.

Recent Accounting Pronouncements

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends existing guidance for determining whether impairment is other-than-temporary for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in

earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The impact of adoption of this Statement on April 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The impact of adoption of this Statement on April 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

In April 2009, the FASB issued Staff Position (FSP) No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009. The impact of adoption of this Statement on April 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events*. The objective of this Statement is to establish principles and requirements for subsequent events. Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (that is, nonrecognized subsequent events). This Statement is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The impact of adoption of this Statement was not material to the Bank's consolidated financial condition or results of operations.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Proper management of the rate sensitivity and maturities of assets and liabilities is required to provide an optimum and stable net interest margin. Interest rate sensitivity spread management is an important tool for achieving this objective and for developing ways in which to improve profitability. Management has assessed its market risk at June 30, 2009, and believes that there have been no material changes since December 31, 2008.

The Bank constantly monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Management responds to all of these to protect and possibly enhance net interest income while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above.

The tool most commonly used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and in transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of sudden shock (generally, an immediate change in interest rates of +/- 2.00%) and smaller incremental interest rate changes are modeled quarterly, representing the primary means the Bank uses for interest rate risk management decisions. The Bank is liability sensitive; that is, more liabilities reprice

within one year than assets. The expectation for a liability sensitive bank is that the net interest margin will decline in a rising interest rate environment.

When preparing its modeling, the Bank makes significant assumptions about the lag in the rate of change in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks, and tests the validity of its assumptions by reviewing actual results with projected expectations.

Item 4 Controls and Procedures

Under the supervision and with the participation of the Bank's management, including its chief executive officer and chief financial officer, the Bank conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934.

Based on the evaluation, the chief executive officer and chief financial officer concluded that as of the end of the period covered by this report the disclosure controls and procedures were adequate and effective, and that the material information required to be included in this report, including information from the Bank's consolidated subsidiary, was properly recorded, processed, summarized and reported, and was made known to the chief executive officer and chief financial officer by others within the Bank in a timely manner, particularly during the period when this quarterly report on Form 10-Q was being prepared.

There was no change in the Bank's internal control over financial reporting that occurred during the most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

There is no pending, or to management's knowledge any threatened, material legal proceedings to which the Bank is a party or to which any of the Bank's properties are subject.

Item 1A Risk Factors

As of June 30, 2009, there were no material changes to the "Risk Factors" disclosed in the Company's Annual Report for the year ended December 31, 2008 on Form 10-K except as set forth below:

Our Expenses Will Increase As A Result Of Increases In FDIC Insurance Premiums

The Federal Deposit Insurance Corporation ("FDIC") imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and ranges from 5 to 43 basis points of the institution's deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects it to do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund's reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at March 31, 2008. As a result of this reduced ratio, on October 16, 2008, the FDIC published a proposed rule that would restore the reserve ratios to its required level. The proposed rule would raise the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. The proposed rule would also alter the way the FDIC calculates federal deposit insurance assessment rates beginning in the second quarter of 2009 and thereafter.

Under the proposed rule, the FDIC would first establish an institution's initial base assessment rate. This initial base assessment rate would range, depending on the risk category of the institution, from 10 to 45 basis points. The FDIC would then adjust the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate would be based upon an institution's levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate would range from 8 to 77.5 basis points of the institution's deposits. There can be no assurance that the proposed rule will be implemented by the FDIC or implemented in its proposed form.

In addition, the Emergency Economic Stabilization Act of 2008 (EESA) temporarily increased the limit on FDIC insurance coverage for deposits from \$100,000 to \$250,000 through December 31, 2013, and the FDIC took action to provide coverage for newly-issued senior unsecured debt and non-interest bearing transaction accounts in excess of the \$250,000 limit, for which institutions will be assessed additional premiums.

Additionally, the FDIC had a special assessment in the second quarter of 2009 of 0.05% of total assets less Tier 1 capital as of March 31, 2009. The Bank recorded \$153,000 in expense for the special assessment for the second quarter of 2009. The FDIC may make additional special assessments in the future periods if needed to replenish the deposit insurance fund.

These actions will significantly increase the Bank's FDIC insurance premium expense and potentially non-interest expense in 2009 and in future years as long as the increased premiums are in place.

Regulatory Changes May Impact the Operations or Financial Results of the Bank

The Federal and State government is considering various changes to regulatory agencies that oversee the Bank and laws that govern its products. It is uncertain what impact regulatory changes will have on the Bank's operations and financial results in future periods. See Management Discussion and Analysis- Recent Regulatory Matters.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Submission of Matters to a Vote of Security Holders

On June 29, 2009, the Bank held its annual meeting. The shareholders approved under cumulative voting, the existing 12 directors to serve until the next annual meeting of shareholders. The shareholders approved Crowe Horwath LLP as independent certified public accountants, to serve as auditors for the fiscal year ending December 31, 2009. The shareholders approved an amendment to the Bylaws to increase the minimum number of directors to eight and the maximum number to fifteen. The shareholders approved a nonbinding resolution regarding executive compensation. Voting was as follows:

Voting was as follows:

	For	Withheld	Against	Abstain or Broker Non-votes
Board of Directors:				
John F. Demeo	3,644,514			
Michael J. Donovan	3,644,514			
Richard A. Dorr	3,644,514			
Thomas M. Duryea	3,644,514			
Todd R. Fry	3,644,514			
Joseph J. Helmer	2,939,640			
Allan J. Hemphill	3,644,514			
John C. Lewis	3,644,514			
Ronald A. Metcalfe	3,644,514			
Nicholas J. Rado	3,644,514			
Daniel F. Raider	0			
Marshall T. Reynolds	3,644,514			
Robert B. St Clair	3,644,514			
Eugene W. Traverso	3,644,514			
Ratify Crowe Horwath LLP as independent certified public accountants, to serve as auditors for the fiscal year ending December 31, 2009	3,626,429		14,659	2,674
Amendment of Bylaws to increase the minimum number of directors to eight and the maximum number to fifteen.	3,562,805		80,957	
Non-binding compensation resolution	3,557,706		85,927	129

The twelve directors elected to serve until the next annual meeting were John F. Demeo, Michael J. Donovan, Richard A. Dorr, Thomas M. Duryea, Todd R. Fry, Allan J. Hemphill, John C. Lewis, Ronald A. Metcalfe, Nicholas J. Rado, Marshall T. Reynolds, Robert B. St Clair and Eugene W. Traverso.

Item 5 Other Information

None.

Item 6 Exhibits

The exhibits filed as part of this report are listed on the Exhibit Index filed as part of this report.

SIGNATURES

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 thereunto duly authorized.

Summit State Bank

(registrant)

August 12, 2009

/s/ Thomas M. Duryea

Date

Thomas M. Duryea, President & Chief Executive Officer

August 12, 2009

/s/ Dennis E. Kelley

Date

Dennis E. Kelley, SVP & Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.01

Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Thomas M. Duryea., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended June 30, 2009;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 12, 2009 /s/ Thomas M. Duryea

Date	Thomas M. Duryea President & Chief Executive Officer Summit State Bank
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Exhibit 31.02

Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Dennis E. Kelley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended June 30, 2009;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 12, 2009 /s/ Dennis E. Kelley

Date	Dennis E. Kelley Senior Vice President & Chief Financial Officer Summit State Bank
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EXHIBIT 32.01

Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report on Form 10-Q of Summit State Bank (the Registrant) for the quarter ended June 30, 2009, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- 1) such Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 12, 2009 _____ /s/ Thomas M. Duryea
Thomas M. Duryea, Chief Executive Officer

August 12, 2009 _____ /s/ Dennis E. Kelley
Dennis E. Kelley, Chief Financial Officer

This certification accompanies each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.