

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 March 31, 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 May 11, 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>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 2,675	\$ 3,650
Total cash and cash equivalents	<u>2,675</u>	<u>3,650</u>
Available-for-sale investment securities - amortized cost of \$41,708 in 2009 and \$41,088 in 2008	41,563	41,183
Loans, less allowance for loan losses of \$4,442 at 2009 and \$4,016 in 2008	297,781	299,645
Bank premises and equipment, net	7,695	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>5,329</u>	<u>5,225</u>
Total assets	<u>\$ 362,104</u>	<u>\$ 364,580</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	\$ 11,647	\$ 10,773
Demand - interest-bearing	17,142	13,597
Savings	11,302	10,068
Money market	26,461	26,123
Time deposits, \$100,000 and over	94,110	84,751
Other time deposits	<u>89,338</u>	<u>107,451</u>
Total deposits	250,000	252,763
Federal Home Loan Bank (FHLB) advances	52,320	55,420
Accrued interest payable and other liabilities	<u>4,021</u>	<u>850</u>
Total liabilities	<u>306,341</u>	<u>309,033</u>
Shareholders' equity		
Preferred stock net, 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	7,898	7,868
Common stock, no par value; shares authorized - 30,000,000 and outstanding 4,744,720 at March 31, 2009 and December 31, 2008	36,256	36,251
Common stock warrants	622	622
Retained earnings	11,076	10,752
Accumulated other comprehensive income (loss), net of taxes	<u>(89)</u>	<u>54</u>
Total shareholders' equity	<u>55,763</u>	<u>55,547</u>
Total liabilities and shareholders' equity	<u>\$ 362,104</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	
	March 31, 2009	March 31, 2008
	(Unaudited)	(Unaudited)
Interest income:		
Interest and fees on loans	\$ 4,744	\$ 4,741
Interest on Federal funds sold	-	69
Interest on investment securities and deposits in banks	598	599
Dividends on FHLB stock	-	33
	<u>5,342</u>	<u>5,442</u>
Interest expense:		
Deposits	1,352	2,292
FHLB advances	288	503
	<u>1,640</u>	<u>2,795</u>
Net interest income before provision for loan losses	3,702	2,647
Provision for loan losses	450	155
	<u>3,252</u>	<u>2,492</u>
Non-interest income:		
Service charges on deposit accounts	101	113
Office leases	225	159
Net securities gains	28	-
Loan servicing, net	27	15
Other income	25	3
	<u>406</u>	<u>290</u>
Non-interest expense:		
Salaries and employee benefits	1,124	1,292
Occupancy and equipment	442	417
Other expenses	669	681
	<u>2,235</u>	<u>2,390</u>
Income before provision for income taxes	1,423	392
Provision for income taxes	576	162
Net income	<u>\$ 847</u>	<u>\$ 230</u>
Less: Preferred dividends	96	-
Net income available for common stockholders	<u>\$ 751</u>	<u>\$ 230</u>
Basic earnings per common share	\$ 0.16	\$ 0.05
Diluted earnings per common share	\$ 0.16	\$ 0.05
Basic weighted average shares of common stock outstanding	4,745	4,745
Diluted weighted average shares of common stock outstanding	4,745	4,747

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 Three Months Ended March 31, 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				847		847	\$ 847
Other comprehensive income, net of tax:							
Net change in unrealized gains (losses) on available-for-sale investment securities					(143)	(143)	(143)
Total comprehensive income							<u>\$ 704</u>
Stock-based compensation expense			5			5	
Preferred stock dividends				(66)		(66)	
Accretion of preferred stock discount	30			(30)		-	
Cash dividends - \$.09 per share				(427)		(427)	
Balance, March 31, 2009	<u>\$ 8,520</u>	<u>4,744,720</u>	<u>\$ 36,256</u>	<u>\$ 11,076</u>	<u>\$ (89)</u>	<u>\$ 55,763</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)	Three Months Ended March 31,	
	2009 (Unaudited)	2008 (Unaudited)
Cash flows from operating activities:		
Net income	\$ 847	\$ 230
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	182	209
Loss on disposal of bank premises and equipment	22	8
Net increase in deferred loan fees	20	(45)
Provision for loan losses	450	155
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	(7)	161
Net change in accrued interest payable and other liabilities	3,171	162
Stock-based compensation expense	5	3
Net cash from operating activities	4,548	848
Cash flows from investing activities:		
Decrease in time deposits in banks	-	80
Purchases of available-for-sale investment securities	(5,240)	(21,665)
Proceeds from sales of available-for-sale investment securities	537	-
Proceeds from calls and maturities of available-for-sale investment securities	4,111	14,035
Proceeds from calls of held to maturity investment securities	-	5,000
Purchase of Federal Home Loan Bank stock	(340)	(115)
Proceeds from the redemption of Federal Home Loan Bank stock	454	454
Net change in loans	1,394	202
Purchases of bank premises and equipment, net	(83)	(45)
Net cash from investing activities	833	(2,054)

(Continued)

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

	Three Months Ended March 31,	
(In thousands)	2009	2008
	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Net increase (decrease) in demand, NOW, savings and money market deposits	5,991	3,901
Net change in certificates of deposit	(8,754)	(18,005)
Net change in short term FHLB advances	3,900	8,181
Repayment of long term FHLB advances	(7,000)	-
Repurchase of common stock	-	(9)
Dividends paid on common stock	(427)	(427)
Dividends paid on preferred stock	(66)	-
Net cash from financing activities	(6,356)	(6,359)
Net change in cash and cash equivalents	(975)	(7,565)
Cash and cash equivalents at beginning of year	3,650	12,805
Cash and cash equivalents at end of period	\$ 2,675	\$ 5,240
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,789	\$ 3,016
Income taxes	\$ 725	\$ -

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 Windsor. 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 March 31, 2009 and for the three months ended March 31, 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 nine months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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 common share computation follow:

	Three Months Ended	
	March 31, 2009	March 31, 2008
(in thousands except earnings per share)		
Net income	\$ 847	\$ 230
Preferred dividends and discount accretion	(96)	-
Net income available for common shareholders	<u>\$ 751</u>	<u>\$ 230</u>
Weighted average common shares outstanding for basic EPS	4,745	4,745
Dilutive effect of:		
Options	-	2
Warrants	-	-
Adjusted weighted average common shares outstanding for diluted EPS	<u>4,745</u>	<u>4,747</u>
Basic earnings per common share	<u>\$ 0.16</u>	<u>\$ 0.05</u>
Diluted earnings per common share	<u>\$ 0.16</u>	<u>\$ 0.05</u>

Recent Accounting Pronouncements

On March 19, 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement 133*. Statement 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and (c) derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The impact of adoption of this Statement on January 1, 2009 was not material to the Bank's consolidated financial condition or results of operations.

Recently Issued and Not Yet Effective Accounting Standards

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 or loss. 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, with early adoption permitted for periods ending after March 15, 2009. The Bank plans to adopt this FSP in the second quarter of 2009. Bank management does not expect the impact of adoption of this FSP on April 1, 2009 to have a material effect on 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 be 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. Early adoption is permitted for periods ending after March 15, 2009. The Bank plans to adopt this FSP in the second quarter of 2009. Bank management does not expect the impact of adoption of this FSP on April 1, 2009 to have a material effect on 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 and APB is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Bank plans to adopt this FSP and APB in the second quarter of 2009. Bank management does not expect the impact of adoption of this FSP and APB for the second quarter of 2009 to have a material effect on the Bank's consolidated financial condition or results of operations.

2. COMPREHENSIVE INCOME

Comprehensive income is made up of net income plus other comprehensive income or loss. Other comprehensive income or loss, net of taxes, includes unrealized gains (losses) on available-for-sale investment securities of \$(143,000) and \$(10,000) for the three months ended March 31, 2009 and 2008. Total comprehensive income was \$704,000 and \$220,000 for the three months ended March 31, 2009 and 2008.

3. REGULATORY CAPITAL

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

	<u>March 31, 2009</u>	
	<u>Amount</u>	<u>Ratio</u>
<u>Tier 1 Leverage Ratio</u>		
Summit State Bank	\$ 51,686,000	14.4%
Minimum requirement for "Well-Capitalized" institution.....	\$ 17,933,000	5.0%
Minimum regulatory requirement.....	\$ 14,346,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>		
Summit State Bank	\$ 51,686,000	17.7%
Minimum requirement for "Well-Capitalized" institution.....	\$ 17,545,000	6.0%
Minimum regulatory requirement.....	\$ 11,697,000	4.0%
<u>Total Risk-Based Capital Ratio</u>		
Summit State Bank	\$ 55,356,000	18.9%
Minimum requirement for "Well-Capitalized" institution.....	\$ 29,242,000	10.0%
Minimum regulatory requirement.....	\$ 23,393,000	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. All the shares have a term of ten years. There were 65,666 options outstanding as of March 31, 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 \$18,124,000 and \$19,079,000 at March 31, 2009 and December 31, 2008, respectively, 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 \$13,000 and \$197,000 at March 31, 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 March 31, 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 March 31, 2009 (In thousands)			
	March 31,2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	\$ 41,563	\$ 1,939	\$ 39,624	\$ -

	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:				
Available for sale securities	\$ 41,183	\$ 2,558	\$ 38,625	\$ -

7. SUBSEQUENT EVENT

Cash Dividend

On April 27, 2009, the Board of Directors declared a \$.09 per common share cash dividend to shareholders of record at the close of business on May 11, 2009, to be paid on May 21, 2009 and a preferred dividend of \$106,000 payable on May 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 March 31, 2009 and December 31, 2008, and results of operations for the three months ended March 31, 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 months ended March 31, 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 \$4,442,000 at March 31, 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 March 31, 2009 was \$4.60 per common share compared to a book value of \$9.96 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. Further, 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 their excess capital levels 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 March 31, 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	
	March 31, 2009	March 31, 2008
	(Unaudited)	(Unaudited)
Statement of Income Data:		
Net interest income	\$ 3,702	\$ 2,647
Provision for loan losses	450	155
Non-interest income	406	290
Non-interest expense	2,235	2,390
Provision for income taxes	576	162
Net income	\$ 847	\$ 230
Less: preferred dividends	96	-
Net income available for common stockholders	\$ 751	\$ 230
 Selected per Share Data:		
Basic earnings per common share	\$ 0.16	\$ 0.05
Diluted earnings per common share	\$ 0.16	\$ 0.05
Book value per common share (2)(3)	\$ 9.96	\$ 10.01
 Selected Balance Sheet Data:		
Assets	\$ 362,104	\$ 334,219
Loans, net	\$ 297,781	\$ 266,755
Deposits	\$ 250,000	\$ 234,915
Average assets	\$ 362,846	\$ 338,091
Average earnings assets	\$ 346,874	\$ 320,839
Average shareholders' equity	\$ 55,092	\$ 47,788
Nonperforming loans	\$ 3,642	\$ 1,438
Total nonperforming assets	\$ 3,682	\$ 1,438
 Selected Ratios:		
Return on average assets (1)	0.95%	0.27%
Return on average equity (1)	6.24%	1.94%
Return on average tangible equity (1)	6.74%	2.12%
Efficiency ratio	54.41%	81.38%
Net interest margin (1)	4.33%	3.32%
Common dividend payout ratio	56.86%	185.65%
Tier 1 leverage capital ratio	14.41%	12.98%
Tier 1 risk-based capital ratio	17.68%	15.35%
Total risk-based capital ratio	18.93%	16.55%
Nonperforming loans to total loans (2)	1.21%	0.53%
Nonperforming assets to total assets (2)	1.02%	0.43%
Allowance for loan losses to total loans (2)	1.47%	1.40%
Allowance for loan losses to nonperforming loans (2)	121.97%	262.59%
(1) Annualized.		
(2) As of period end		
(3) Total shareholders' equity less \$8,500 liquidation value of preferred stock divided by total common shares outstanding		

Results of Operations

Three months ended March 31, 2009 and March 31, 2008

Net Income

For the three months ended March 31, 2009 net income was \$847,000, and net income available for common stockholders (net income less preferred stock dividends and accretion of discount) was \$751,000 compared to \$230,000 in net income available for common stockholders for the three months ended March 31, 2008. Earnings per diluted common share were \$0.16 for the quarter ended March 31, 2009 compared to \$0.05 for the quarter ended March 31, 2008. Annualized return on average assets was 0.95% for the first quarter of 2009 compared to 0.27% for the first quarter of 2008.

Net Interest Income and Net Interest Margin

Net interest income increased \$1,055,000 or 40% to \$3,702,000 for the first quarter of 2009 compared to \$2,647,000 for the same quarter of 2008. The annualized net interest margin increased to 4.33% for the first quarter of 2009, compared to 3.32% for the first quarter of 2008. The net interest margin improved as the cost of funds declined primarily due to the repricing of renewing time deposits and lower rates on Federal Home Loan Bank advances.

Average earning assets were \$346,874,000 for the first quarter of 2009, as compared to \$320,839,000 for the same quarter of 2008. The annualized yield on average earning assets was 6.25% and the annualized cost of average interest-bearing liabilities was 2.26% for the first quarter of 2009, as compared to the annualized yield on average earning assets of 6.82% and annualized cost of interest-bearing liabilities of 4.04% for the same quarter of 2008.

The Bank 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. At March 31, 2009 total wholesale broker deposits were \$30,205,000 compared to \$10,027,000 at March 31, 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)

	<u>Three Months Ended</u>			<u>Three Months Ended</u>		
	<u>March 31, 2009</u>			<u>March 31, 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	\$ 1	\$ -	0.00%	\$ 7	\$ -	0.00%
Taxable investment securities	43,914	598	5.52%	42,966	632	5.92%
Federal funds sold	26	-	0.00%	8,021	69	3.46%
Loans, net (1)	302,933	4,744	6.35%	269,845	4,741	7.07%
Total earning assets/interest income	<u>346,874</u>	<u>5,342</u>	6.25%	<u>320,839</u>	<u>5,442</u>	6.82%
Nonearning assets	20,127			20,902		
Allowance for loan losses	(4,155)			(3,650)		
Total assets	<u>\$ 362,846</u>			<u>\$ 338,091</u>		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	\$ 14,271	22	0.63%	\$ 12,676	26	0.82%
Savings and money market	36,938	124	1.36%	40,666	276	2.73%
Time deposits	191,325	1,206	2.56%	181,055	1,990	4.42%
FHLB advances	51,300	288	2.28%	43,750	503	4.62%
Total interest bearing liabilities/interest expense	<u>293,834</u>	<u>1,640</u>	2.26%	<u>278,147</u>	<u>2,795</u>	4.04%
Noninterest bearing deposits	11,434			11,270		
Other liabilities	2,486			886		
Total liabilities	<u>307,754</u>			<u>290,303</u>		
Shareholders' equity	55,092			47,788		
Total liabilities and shareholders' equity	<u>\$ 362,846</u>			<u>\$ 338,091</u>		
Net interest income and margin (2)		<u>\$ 3,702</u>	4.33%		<u>\$ 2,647</u>	3.32%
Net interest spread (3)			3.99%			2.78%

- (1) The net amortization of deferred fees and costs on loans included in interest income was \$79,000 and \$34,000 for the three months ended March 31, 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 March 31.			
Change Due to			
	Net	Volume	Yield/Rate
Interest income:			
Taxable investment securities	\$ (34)	\$ 14	\$ (48)
Federal Funds sold	(69)	(69)	-
Loans, net	3	548	(545)
Total interest income	(100)	493	(593)
Interest expense:			
Interest-bearing transaction	(4)	3	(7)
Savings and money market	(152)	(23)	(129)
Time deposits	(784)	107	(891)
FHLB advances	(215)	76	(291)
Total interest expense	(1,155)	163	(1,318)
Increase (decrease) in net interest income	\$ 1,055	\$ 330	\$ 725

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 months ended March 31, 2009, the provision for loan losses was \$450,000 and it was \$155,000 for three months ended March 31, 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 first quarter of 2009 and 2008, there were \$24,000 and \$0 loan charge-offs, respectively. There were no loan recoveries during either quarter. The provisions for loan losses for the periods reflect management's assessment of the negative current economic trends. See Balance Sheet Activity – Nonperforming Assets and Allowance for Loan Losses for additional discussion.

Non-interest Income

Non-interest income totaled \$406,000 and \$290,000 for the first 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 \$101,000 for the first quarter of 2009 compared to \$113,000 for the same period in 2008. Office lease income was \$225,000 and \$159,000 for the first quarter of 2009 and 2008. The increase in office lease income was attributable to the early termination agreement of an office lease in the first quarter of 2009. New leases for office space in the Bank's owned head office building are at lower rents than in prior years and it is expected that future quarterly revenue from office leases will be less than previous years.

The Bank recognized \$28,000 in net gains on security sales during the first quarter of 2009. There were no security sales in the first quarter of 2008.

Non-interest Expense

For the first quarter of 2009, non-interest expense declined \$155,000, or 6%, to \$2,235,000, compared to \$2,390,000 for the same quarter in 2008. The decline in expenses between the quarters was primarily attributable to \$140,000 of expense incurred in the conversion of the Bank's core data processor and \$189,000 of expense associated with employee terminations incurred during the first quarter of 2008.

Occupancy and equipment expenses increased \$25,000, or 6% for the quarterly periods primarily due to adjustments in the head office building's common area expense recovery under the new leases for 2009.

The FDIC has announced a special assessment for the second quarter of 2009 to recapitalize the Depository Insurance Fund. This assessment when finalized is projected to be a significant increase in insurance expense. Under the current proposal the FDIC insurance expense could increase approximately by \$250,000 in the second quarter. See "Recent Regulatory Matters."

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 for the three months ended March 31, 2009 and 2008 were \$576,000 and \$162,000, resulting in combined effective Federal and State corporate income tax rates of 40.5% and 41.3% for the respective periods.

Balance Sheet Activity

At March 31, 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 \$41,563,000 at March 31, 2009 and comprised 11% of total assets compared to amortized cost of \$41,708,000. 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 \$5,240,000 and \$4,111,000 in par value purchases and calls of government agency bonds and \$509,000 in par value corporate investment securities sold in the first quarter of 2009. The net gain on the sold investments was \$28,000.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At March 31, 2009 investment securities with an amortized cost of \$20,500,000, or 49% of the investment portfolio, were pledged to secure time deposits from the State of California. At December 31, 2008, investment securities with amortized cost of \$19,500,000, or 48% of the investment portfolio, were pledged. At March 31, 2009, securities with amortized cost of \$30,500,000 were callable within one year. Management expects an accelerated 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>March 31, 2009</u>		<u>December 31, 2008</u>		Net Change	Percent Change
		%		%		
Commercial & Agricultural	\$ 69,882	23.0%	\$ 69,359	22.7%	\$ 523	0.75%
Real Estate - Commercial	126,681	41.6%	126,690	41.4%	(9)	-0.01%
Real Estate-Construction	5,308	1.7%	6,800	2.2%	(1,492)	-21.94%
Real Estate - Single Family Units	54,444	17.9%	53,375	17.4%	1,069	2.00%
Real Estate - Land Loans	14,064	4.6%	14,857	4.9%	(793)	-5.34%
Real Estate-Multifamily	23,033	7.6%	23,159	7.6%	(126)	-0.54%
Consumer	5,186	1.7%	5,253	1.7%	(67)	-1.28%
Lease Financing	5,782	1.9%	6,305	2.1%	(523)	-8.30%
	<u>304,380</u>	<u>100%</u>	<u>305,798</u>	<u>100%</u>	<u>(1,418)</u>	<u>-0.46%</u>
LESS:						
Allowance for Loan Losses	(4,442)		(4,016)		(426)	10.61%
Deferred Loan Fees	<u>(2,157)</u>		<u>(2,137)</u>		<u>(20)</u>	0.94%
Total Loans, Net	<u>\$ 297,781</u>		<u>\$ 299,645</u>		<u>\$ (1,864)</u>	<u>-0.62%</u>

Real estate construction loans outstanding have declined since December 31, 2008 due to pay-offs and lower volume of new construction loan originations. Single family residential loans increased through local originations of predominantly jumbo mortgage loans.

At March 31, 2009, the Bank had approximately \$18,124,000 in undisbursed loan commitments, of which approximately \$5,389,000 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 March 31, 2009 were \$3,642,000 or 1.21% of gross loans. There were \$2,615,000 in loans added to nonaccrual status during the first quarter of 2009, of which \$2,415,000 was one loan for a condominium conversion project. The nonperforming loans included \$452,000 in loans partially guaranteed by the Small Business Administration. A majority of the nonperforming loans have real estate as collateral. There was no other real estate owned at March 31, 2009.

In addition to the nonperforming loans discussed above, the Bank has nonperforming investment securities with an adjusted book value of \$40,000 which have suspended payment of interest or dividends at March 31, 2009.

At March 31, 2009, there were loan relationships primarily secured by commercial real estate totaling \$7,380,000 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 \$30,000 reported in other liabilities on the consolidated balances sheet as of March 31, 2009 and December 31, 2008.

The allowance for loan losses was \$4,442,000 at March 31, 2009 compared to \$4,016,000 at December 31, 2008. The activity in the allowance for loan losses during the first three months of 2009 included a provision for loan losses of \$450,000 and charge-offs of \$24,000. At March 31, 2009 and December 31, 2008, the Bank's allowance for loan losses was 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)

	<u>Three months ended</u> March 31, 2009	<u>Year Ended</u> December 31, 2008
Balance at beginning of period	\$ 4,016	\$ 3,621
Charge-offs:		
Commercial and agricultural	-	431
Real estate--construction and land development	-	-
Real estate--mortgage	-	-
Installment loans to individuals	24	8
Leases	-	19
	<u>24</u>	<u>458</u>
Total loans charged-off		
Recoveries:		
Commercial and agricultural	-	168
Real estate--construction and land development	-	-
Real estate--mortgage	-	-
Installment loans to individuals	-	-
Leases	-	-
	<u>-</u>	<u>168</u>
Total recoveries		
Net loans charged-off	24	290
Provision for loan losses	450	685
Allowance for loan losses - end of period	<u>\$ 4,442</u>	<u>\$ 4,016</u>
Loans:		
Average loans outstanding during period, net of unearned income	\$ 302,933	\$ 279,140
Total loans at end of period, net of unearned income	\$ 302,223	\$ 303,661
Ratios:		
Net loans charged-off to average net loans (1)	0.03%	0.10%
Net loans charged-off to total loans (1)	0.03%	0.10%
Allowance for loan losses to average net loans	1.47%	1.44%
Allowance for loan losses to total loans	1.47%	1.32%
Net loans charged-off to beginning allowance for loan losses (1)	2.42%	8.01%
Net loans charged-off to provision for loan losses	5.33%	42.34%

Allowance for Loan Losses

(in thousands)	March 31,	December 31,		
	2009	2008		
	<u>Allowance Allocation</u>	<u>Amount of Category Loans to Total Loans</u>	<u>Allowance Allocation (1)</u>	<u>Amount of Category Loans to Total Loans</u>
Commercial & agricultural	\$ 1,380	23.0%	\$ 1,285	22.7%
Real estate - commercial	891	41.6%	739	41.4%
Real estate - construction	31	1.7%	41	2.2%
Real estate - single family units	98	17.9%	84	17.4%
Real estate - land loans	212	4.6%	135	4.9%
Real estate - multifamily	71	7.6%	71	7.6%
Consumer	296	1.7%	259	1.7%
Lease financing	58	1.9%	63	2.1%
Other qualitative factors	735		735	
Unallocated	670		604	
Total	<u>\$ 4,442</u>	<u>100%</u>	<u>\$ 4,016</u>	<u>100%</u>

(1) The allocation for December 31, 2008 is revised to conform with the March 31, 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 real estate-commercial portfolio at March 31, 2009 compared to December 31, 2008, was primarily attributable to the changes in the economy and its effect on particular borrowers.

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 March 31, 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 March 31, 2009 and December 31, 2008, the State of California had \$40,000,000 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 March 31, 2009, the Bank had \$54,380,000 in brokered time deposits, this compares to \$66,403,000 in brokered time deposits at December 31, 2008. The brokered deposits consisted of \$30,205,000 in wholesale brokered deposits at March 31, 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 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 \$23,478,000 at March 31, 2009 and constituted 6% of total assets at that date compared to \$25,209,000 or 7% of total assets at December 31, 2008.

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 March 31, 2009 and December 31, 2008, of which \$59 million in Federal Home Loan Bank advances and letter of credit were outstanding at March 31, 2009 and \$62 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 March 31, 2009, \$41,320,000 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 March 31, 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 March 31, 2009, the Bank’s leverage ratio was 14.4%. 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 as the uncertainty of the economic environment is unknown. 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 determined that based on the uncertainty of the economy and the potential for expansion with access to the additional capital, to participate in the CPP and increase the Bank’s capital ratios.

The Bank has expanded its marketing efforts in the local community, however as a result of the current economy, it experienced below normal loan demand during the first quarter of 2009. The board of directors will regularly evaluate the purpose and need for the preferred capital. The condition and trend of the economy is currently uncertain and management is exploring the potential for leveraging the capital for increased earnings.

Recent Regulatory Matters

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, 2009 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. This, 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 will issue on June 30, 2009. However, the FDIC announced that it may reduce the special assessment to 10 basis points, provided that Congress increases the FDIC's line of credit with the Treasury from \$30 billion to \$100 billion.

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 March 31, 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 March 31, 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, 2009, 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.

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

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

None.

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)

May 11, 2009

/s/ Thomas M. Duryea

Date

Thomas M. Duryea, President & Chief Executive Officer

May 11, 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 March 31, 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.

May 11, 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 March 31, 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.

May 11, 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 March 31, 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.

May 11, 2009 _____ /s/ Thomas M. Duryea
Thomas M. Duryea, Chief Executive Officer

May 11, 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.