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# FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

## FORM 8-K

### CURRENT REPORT

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

Date of Report (Date of earliest event reported): August 14, 2006

### Summit State Bank

(Exact name of registrant as specified in its charter)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02. Results of Operations and Financial Condition.**

On August 16, 2006, the registrant issued the press release attached hereto as Exhibit 99 and incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits**

**(c) Exhibits:**

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

## **SIGNATURE**

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

Dated: August 16, 2006

## **SUMMIT STATE BANK**

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

**Exhibit Index**

<u>Exhibit Number</u>	<u>Description</u>
99	Press release of Summit State Bank dated August 16, 2006 announcing results of operations for the quarter and six months ended June 30, 2006

**Summit State Bank Reports Second Quarter Earnings**

SANTA ROSA, CA – 8/16/2006 – Summit State Bank (Nasdaq GM: SSBI) today reported net income of \$683,000 or \$.20 per diluted share for the quarter ended June 30, 2006. This compares to net income of \$770,000 or \$.23 per diluted share for the second quarter of 2005. For the six months ended June 30, 2006, net income was \$1,433,000 or \$.42 per diluted share as compared to \$1,388,000 or \$.41 per diluted share one year ago. On May 22, 2006, the Board of Directors declared a 2-for-1 stock split of its outstanding shares of common stock. Earnings and dividends per share information for all periods presented give effect to the split.

Annualized return on average equity was 9.93% and 10.50% for the three and six months ended June 30, 2006, as compared to 11.93% and 10.88% for the same periods one year ago. Annualized return on average tangible equity was 11.67% and 12.35% for the three and six months ended June 30, 2006, as compared to 14.19% and 12.96% for the same periods one year ago. Annualized return on average assets was .94% and .96% for the three and six months ended June 30, 2006, as compared to 1.19% and 1.09% for the same periods one year ago.

The Bank experienced a decline in net income during the three months ended June 30, 2006 when compared to the same period in 2005, primarily due to a decline in noninterest income and increase in operating expenses, which was partially offset by an increase in net interest income. Noninterest income declined primarily due to reduced guaranteed loan sales, reduced service charge income and reduced real estate exchange fees. Operating expenses increased due to increased staffing to support the growth of the Bank.

Net income increased for the six months ended June 30, 2006 when compared to the same period in 2005, as the increase in net interest income was sufficient to offset the decline in noninterest income and increase in operating expenses.

**Net Interest Income**

Net interest income increased \$101,000 or 4% to \$2,692,000 during the second quarter of 2006 compared to \$2,591,000 for the same quarter of 2005. The net interest margin declined to 3.94% for the three months ended June 30, 2006, compared to 4.28% for the three months ended June 30, 2005. The decline in the Bank's net interest margin was due to the general rise in interest rates between the two periods which affects the yield on earning assets and the cost of funds by varying amounts. While the net interest margin declined, net interest income increased due to the increase in earning assets. Average interest earning assets increased 13% to \$273,804,000 from \$242,561,000 for the three months ended June 30, 2006 and 2005.

Net interest income increased \$598,000 or 12% to \$5,494,000 during the first six months of 2006 compared to \$4,896,000 for the same period of 2005, resulting in a net interest margin of 3.92% for the six months ended June 30, 2006, a decrease from the net interest margin of 4.14% for the six months ended June 30, 2005. While the net interest margin declined, growth in the volume of earning assets and a modest change in the mix of earning assets was sufficient to overcome the declining margin, as average interest earning assets increased 19% to \$282,862,000 from \$238,249,000 for the six months ended June 30, 2006 and 2005.

**Noninterest Income**

For the second quarter 2006, non-interest income totaled \$334,000, as compared to \$469,000 for the second quarter of 2005. While lease income increased \$19,000 to \$167,000, in the quarter over quarter comparison, most of the change is related to service charges on deposit accounts, which decreased \$148,000 to \$78,000 as a result of the discontinuance of a deposit product line and the loss of a large national account.

Other non- interest income sources included Real Estate 1031 Exchange Fees, which decreased \$28,000 to \$7,000 in the comparison with second quarter 2005 and SBA Guaranteed Loan Sales, which decreased \$23,000 to \$5,000 during the same period. Rising short term interest rates have reduced the volume in both product lines.

Total non-interest income for the first six months of 2006 decreased \$216,000 to \$656,000 for the same reasons outlined above. Because the Headquarters Office was fully leased in 2006, Lease Income increased \$75,000 to \$318,000 in the comparison with the first six months of 2005. Most of the decrease is represented by the \$206,000 decrease in service charges to \$162,000, for 2006.

#### Noninterest Expenses

For the second quarter 2006, non-interest expenses increased \$85,000 to \$1,725,000, compared to the same period in 2005. While general operating expenses decreased \$116,000 in the second quarter comparison with 2005, human resources expense increased \$136,000 to \$890,000 and premises and equipment related expenses increased \$65,000 to \$339,000. The increase in expense relates to additional staffing, training and positioning for growth in deposits and assets.

While total non-interest expenses increased \$272,000 to \$3,458,000, in comparison with the first six months of 2005, the 9% increase in expenses compares to a 17% increase in average assets for the period. The key components of change, in comparison with 2005, were the \$59,000 decrease in general operating expenses, \$221,000 increase in human resources related expenses, and the \$110,000 increase in premises and equipment related expenses.

#### Loan and Deposit Activity

Total loans as of June 30, 2006 were \$250,349,000, an increase of \$29,682,000 or 13%, compared to total loans of \$220,667,000 at June 30, 2005.

Total deposits were \$236,395,000 at June 30, 2006, an increase of \$23,235,000 or 11%, compared to \$213,160,000 at June 30, 2005.

Total assets were \$299,409,000 at June 30, 2006, an increase of \$33,794,000 or 13%, compared to \$265,615,000 at June 30, 2005. Total assets declined \$46,443,000 compared to December 31, 2005 as a result of fluctuations in deposits from the Real Estate 1031 Exchange program.

#### Nonperforming Assets

Loans on nonaccrual were \$958,000 or 0.4% of gross loans at June 30, 2006 and consisted of three loans. There were no loans past due 90 days and still accruing interest.

#### About Summit State Bank

Summit State Bank provides diverse financial products and services which are marketed through Sonoma County, California with offices located in Santa Rosa, Rohnert Park and Windsor. Summit State Bank stock is traded on the Nasdaq Global Market under the symbol SSBI.

#### Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those set forth in or implied by forward-looking statements. These risks are described from time to time in Summit State Bank's filings with the Federal Deposit Insurance Corporation, including its Registration Statement on Form 10 and quarterly reports on Form 10-Q. Summit State Bank disclaims any intent or obligation to update these forward-looking statements.

**For the Three Months Ended June 30, 2006 and 2005 and the Six Months Ended June 30, 2006 and 2005**

(Dollars in thousands except for earnings per share and share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 4,554	\$ 3,510	\$ 8,824	\$ 6,642
Interest on Federal funds sold	4	43	244	103
Interest on investment securities and deposits in banks	362	265	723	457
	<u>4,920</u>	<u>3,818</u>	<u>9,791</u>	<u>7,202</u>
Total interest income				
Interest expense:				
Deposits	1,759	1,008	3,625	1,863
Short-term borrowings	323	111	419	228
Long-term debt	146	108	253	215
	<u>2,228</u>	<u>1,227</u>	<u>4,297</u>	<u>2,306</u>
Total interest expense				
Net interest income before provision for loan losses	2,692	2,591	5,495	4,896
Provision for loan losses	111	111	222	222
	<u>2,581</u>	<u>2,480</u>	<u>5,272</u>	<u>4,674</u>
Net interest income after provision for loan losses				
Non-interest income:				
Service charges	78	226	162	368
Office leases	167	148	318	243
Gain on sale of loans	5	29	22	120
Real estate exchange fees	7	36	23	61
Loan servicing	13	18	31	34
Other income	64	12	100	46
	<u>334</u>	<u>469</u>	<u>656</u>	<u>872</u>
Total non-interest income				
Other expenses:				
Salaries and employee benefits	890	754	1,767	1,546
Occupancy and equipment	339	274	661	551
Other expenses	496	612	1,030	1,089
	<u>1,725</u>	<u>1,640</u>	<u>3,458</u>	<u>3,186</u>
Total other expenses				
Income before provision for income taxes	1,190	1,309	2,470	2,359
Provision for Income taxes	507	539	1,037	971
	<u>683</u>	<u>770</u>	<u>1,433</u>	<u>1,388</u>
Net income				
Basic earnings per share	<u>\$ 0.20</u>	<u>\$ 0.23</u>	<u>\$ 0.43</u>	<u>\$ 0.41</u>
Diluted earnings per share	<u>\$ 0.20</u>	<u>\$ 0.23</u>	<u>\$ 0.42</u>	<u>\$ 0.41</u>
Basic weighted average shares of common stock outstanding	<u>3,361,579</u>	<u>3,361,430</u>	<u>3,361,505</u>	<u>3,361,430</u>
Diluted weighted average shares of common stock outstanding	<u>3,393,798</u>	<u>3,377,530</u>	<u>3,377,530</u>	<u>3,361,430</u>

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

(In thousands)

	June 30, 2006 (Unaudited)	December 31, 2005	June 30, 2005 (Unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 5,950	\$ 2,186	\$ 7,018
Federal funds sold		63,370	3,200
Total cash and cash equivalents	<u>5,950</u>	<u>65,556</u>	<u>10,218</u>
Time deposits in banks	652 <sup>▼</sup>	1,635 <sup>▼</sup>	3,025
Available-for-sale investment securities - at fair value	21,671	19,547	12,692
Held-to-maturity investment securities	5,000	5,000	5,000
Loans, net of unearned income	250,349	239,826	220,667
Allowance for Loan Losses	<u>(3,641)</u>	<u>(3,354)</u>	<u>(3,445)</u>
Loans, net	246,708	236,272	217,272
Bank premises and equipment, net	8,406	8,652	8,996
Investment in Federal Home Loan Bank stock, at cost	2,609	1,451	1,393
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets	<u>4,294 <sup>▼</sup></u>	<u>3,620</u>	<u>2,950</u>
Total assets	<u>\$ 299,409</u>	<u>\$ 345,852</u>	<u>\$ 265,615</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			
Demand	\$ 10,490	\$ 11,291	\$ 12,014
NOW	13,168	14,247	13,761
Savings	42,666	112,399	34,832
Money market	37,855	53,867	59,831
Certificates of deposit, \$100,000 and over	76,305	59,187	49,320
Other certificates of deposit	55,910	50,764	43,402
Total deposits	<u>236,394</u>	<u>301,755</u>	<u>213,160</u>
Short-term borrowings	14,466	5,175	15,804
Long-term debt	20,200	10,200	10,200
Accrued interest payable and other liabilities	<u>679</u>	<u>1,679</u>	<u>313</u>
Total liabilities	<u>271,739</u>	<u>318,809</u>	<u>239,477</u>
Shareholders' equity			
Common stock	17,402	17,395	17,395
Retained earnings	10,743	9,914	8,776
Accumulated other comprehensive loss, net of taxes	<u>(475)</u>	<u>(266)</u>	<u>(33)</u>
Total shareholders' equity	<u>27,670</u>	<u>27,043</u>	<u>26,138</u>
Total liabilities and shareholders' equity	<u>\$ 299,409</u>	<u>\$ 345,852</u>	<u>\$ 265,615</u>

Selected Other Data and Ratios

	Three Months Ended		Six Months Ended	
	<u>June 30,2006</u>	<u>June 30,2005</u>	<u>June 30,2006</u>	<u>June 30,2005</u>
(Ratios are annualized)				
Return on average assets	0.94%	1.19%	0.96%	1.09%
Return on average equity	9.93%	11.93%	10.50%	10.88%
Return on average tangible equity	11.67%	14.19%	12.35%	12.96%
Efficiency ratio	57.01%	53.59%	56.23%	55.25%
Net interest margin	3.94%	4.28%	3.92%	4.14%