
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): November 13, 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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<u>500 Bicentennial Way</u> <u>Santa Rosa, California</u> (Address of principal executive offices)	<u>95403</u> (Zip Code)
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(707) 568-6000
(Registrant's telephone number, including area code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On November 13, 2006, the registrant issued the press release attached hereto as Exhibit 99 and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

Exhibits:

(c)

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: November 13, 2006

SUMMIT STATE BANK

By: /s/ Dennis 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 November 13, 2006 announcing results of operations for the quarter and nine months ended September 30, 2006

Summit State Bank Reports Third Quarter Earnings

SANTA ROSA, CA – (November 13, 2006) – Summit State Bank (Nasdaq GM: SSBI) today reported net income of \$734,000 or \$.16 per diluted share for the quarter ended September 30, 2006. This compares to net income of \$823,000 or \$.24 per diluted share for the third quarter of 2005. For the nine months ended September 30, 2006, net income was \$2,167,000 or \$.57 per diluted share as compared to \$2,211,000 or \$.66 per diluted share one year ago. Earnings and dividends per share information for all periods presented give effect to the 2-for-1 stock split issued in June 2006.

On August 16, 2006, SSB completed an underwritten public offering of 1,432,700 shares of common stock. These shares increased the diluted weighted average shares outstanding for the third quarter and nine month period ending September 30, 2006 over the same periods in 2005 by 38% and 14%, respectively. The diluted earnings per share decline in the third quarter of \$0.08 as compared to the prior year was comprised of a decline of \$0.02 attributable to the decline in net income and \$0.06 decline attributable to the increase in diluted weighted average shares outstanding. The \$0.09 decline in diluted earnings per share for the nine month periods was comprised of a \$0.01 decline attributable to the decline in net income and \$0.08 decline attributable to the increase in diluted weighted average shares outstanding.

Total shareholder equity was \$47,591,000 at September 30, 2006 compared to \$26,623,000 at September 30, 2005. At September 30, 2006 there were 4,794,720 common shares outstanding with a per share book value of \$9.93 compared to 3,361,430 shares outstanding at September 30, 2005 with a per share book value of \$7.92.

Annualized return on average assets was .96% for the three and nine months ended September 30, 2006, as compared to 1.03% and 1.07% for the same periods one year ago. Annualized return on average equity was 6.63% and 8.77% for the three and nine months ended September 30, 2006, as compared to 12.36% and 11.39% for the same periods one year ago. Annualized return on average tangible equity was 7.32% and 10.02% for the three and nine months ended September 30, 2006, as compared to 14.64% and 13.54% for the same periods one year ago.

The Bank experienced a decline in net income during the third quarter and nine month period of 2006 when compared to the same periods in 2005, primarily due to a decline in noninterest income and increase in salaries and employee benefit expenses, which was partially offset by an increase in net interest income. Noninterest income declined primarily due to reduced guaranteed loan sales which resulted in gains of \$40,000 and \$63,000 for the quarter and nine month period in 2006 compared to \$225,000 and \$345,000 for the same periods in 2005. Salaries and employee benefit expenses increased due to increased staffing to support the growth of the Bank.

Net Interest Income

Net interest income increased \$127,000 or 5% to \$2,827,000 during the third quarter of 2006 compared to \$2,700,000 for the same quarter of 2005. The net interest margin increased to 3.96% for the three months ended September 30, 2006, compared to 3.59% for the three months ended September 30, 2005. The net interest margin in the third quarter of 2005 was negatively impacted by an increase in savings deposits which resulted from a large temporary deposit through the Bank's Section 1031 Real Estate Exchange program which was priced at a spread below the Federal funds rate. The withdrawal of this deposit in the first quarter of 2006 resulted in a decline in average interest earning assets of 5% to \$283,233,000 from \$298,366,000 for the three months ended September 30, 2006 compared to the same period in 2005.

Net interest income increased \$725,000 or 10% to \$8,320,000 during the first nine months of 2006 compared to \$7,595,000 for the same period of 2005, resulting in a net interest margin of 3.93% for the nine months ended September 30, 2006 and 2005. The volume of average interest earning assets increased 9% to \$283,006,000 from \$258,508,000 for the nine months ended September 30, 2006 compared to the same period in 2005.

Noninterest Income

For the third quarter 2006, total non-interest income was \$345,000, as compared to \$584,000 for the third quarter of 2005. The decline was primarily due to the lower gains on the sale of SBA guaranteed loans which were \$40,000 compared to \$225,000 for the third quarters of 2006, and 2005. The volume of SBA guaranteed loans generated has been negatively impacted by the general increase in interest rates.

Total non-interest income for the first nine months of 2006 decreased \$454,000 to \$1,002,000 due to a \$282,000 decline in net gains on SBA guaranteed loan sales and a \$236,00 decline in service charge income which has occurred primarily due to the discontinuation of a product line in June 2005.

Management has instituted plans to build service charge income by focusing marketing efforts to increase the number of consumer and business checking accounts and related services.

Noninterest Expense

For the third quarter 2006, noninterest expense increased \$104,000 or 6% to \$1,892,000, compared to the same period in 2005. While other expenses decreased \$91,000 or 13% in the third quarter comparison with 2005, salaries and employee benefit expense increased \$192,000 or 26% to \$930,000. The increase in expense relates to additional staffing, training and positioning for growth in deposits and assets.

Total noninterest expense increased \$376,000 to \$5,350,000 for the first nine months of 2006, in comparison with the first nine months of 2005. This 8% increase in expenses compares to a 9% increase in average assets for the period. The key components of change, in comparison with 2005, were the \$149,000 decrease in other expenses, \$412,000 increase in

salaries and employee benefit expenses, and the \$113,000 increase in occupancy and equipment related expenses.

Loan and Deposit Activity

Total loans as of September 30, 2006 were \$252,281,000, an increase of \$16,974,000 or 7%, compared to total loans of \$235,307,000 at September 30, 2005.

Total deposits were \$224,751,000 at September 30, 2006, compared to \$311,108,000 at September 30, 2005. The decrease in total deposits since September 2005 are, primarily, the result of staged withdrawals of an extraordinarily large \$86 million tax deferred exchange transaction, which by its nature, was a temporary deposit.

Total assets were \$303,546,000 at September 30, 2006, a decline of \$50,345,000 or 14%, compared to \$353,891,000 at September 30, 2005. The decline was the result of fluctuations in deposits from the Real Estate 1031 Exchange program as described above.

Nonperforming Assets

Loans on nonaccrual were \$1,067,000, or 0.4% of gross loans at September 30, 2006. This is a slight increase to the nonaccrual loan total at March 31, 2006 of \$958,000. The non accrual amount consisted of four loans. The Small Business Administration (SBA) guarantees back \$486,000 of the nonaccrual loan balances.

The provision for loan losses was reduced to \$31,000 for the third quarter ended September 30, 2006 as compared to \$111,000 in the second quarter. The decrease in the provision reflects the stable quality of the loan portfolio. At September 30, 2006, the allowance for loan losses to gross loans was 1.48% and allowance for loan losses to nonaccrual loans was 350%.

About Summit State Bank

Summit State Bank has total assets of \$304 million and total equity of \$48 million. It 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.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months and Nine Ended September 30, 2006 and September 30, 2005
(In thousands except for earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2006 (Unaudited)	September 30, 2005 (Unaudited)	September 30, 2006 (Unaudited)	September 30, 2005 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 4,771	\$ 3,768	\$ 13,595	\$ 10,409
Interest on Federal funds sold	27	408	271	511
Interest on investment securities and deposits in banks	429	268	1,106	693
Dividends on FHLB stock	28	15	73	47
Total interest income	<u>5,255</u>	<u>4,459</u>	<u>15,045</u>	<u>11,660</u>
Interest expense:				
Deposits	2,059	1,555	5,684	3,418
Securities sold under repurchase agreements	4	4	11	12
FHLB Advances	365	200	1,030	635
Total interest expense	<u>2,428</u>	<u>1,759</u>	<u>6,725</u>	<u>4,065</u>
Net interest income before provision for loan losses	2,827	2,700	8,320	7,595
Provision for loan losses	31	111	253	333
Net interest income after provision for loan losses	<u>2,796</u>	<u>2,589</u>	<u>8,067</u>	<u>7,262</u>
Non-interest income:				
Service charges	100	130	262	498
Office leases	163	167	481	411
Gains on sales of loans	40	225	63	345
Real estate exchange fees	12	32	35	93
Loan servicing	15	16	46	50
Other income	15	14	115	59
Total non-interest income	<u>345</u>	<u>584</u>	<u>1,002</u>	<u>1,456</u>
Non-interest expense:				
Salaries and employee benefits	930	738	2,696	2,284
Occupancy and equipment	335	332	996	883
Other expenses	627	718	1,658	1,807
Total non-interest expense	<u>1,892</u>	<u>1,788</u>	<u>5,350</u>	<u>4,974</u>
Income before provision for income taxes	1,249	1,385	3,719	3,744
Provision for Income taxes	515	562	1,552	1,533
Net income	<u>\$ 734</u>	<u>\$ 823</u>	<u>\$ 2,167</u>	<u>\$ 2,211</u>
Basic earnings per share	<u>\$ 0.16</u>	<u>\$ 0.24</u>	<u>\$ 0.57</u>	<u>\$ 0.66</u>
Diluted earnings per share	<u>\$ 0.16</u>	<u>\$ 0.24</u>	<u>\$ 0.57</u>	<u>\$ 0.66</u>
Basic Weighted average shares of common stock outstanding	<u>4,579</u>	<u>3,361</u>	<u>3,772</u>	<u>3,361</u>
Diluted Weighted average shares of common stock outstanding	<u>4,625</u>	<u>3,361</u>	<u>3,817</u>	<u>3,361</u>

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

(In thousands)

	September 30, 2006 (Unaudited)	December 31, 2005	September 30, 2005 (Unaudited)
ASSETS			
Cash and due from banks	\$ 4,865	\$ 2,186	\$ 8,267
Federal funds sold	-	63,370	72,400
Total cash and cash equivalents	4,865	65,556	80,667
Time deposits in banks	457	1,635	2,609
Available-for-sale investment securities - at fair value	26,131	19,547	16,139
Held-to-maturity investment securities	5,000	5,000	5,000
Loans, less allowance for loan losses of \$3,736 in 2006 and \$3,617 and \$3,556 in December and September, 2005	248,546	236,208	231,751
Bank premises and equipment, net	8,290	8,652	8,818
Investment in Federal Home Loan Bank stock, at cost	1,876	1,451	1,434
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets	4,262	3,620	3,354
Total assets	<u>\$ 303,546</u>	<u>\$ 345,788</u>	<u>\$ 353,891</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 11,060	\$ 11,291	\$ 11,288
Demand - interest-bearing	12,803	14,247	15,722
Savings	18,748	112,398	124,945
Money market	32,807	53,867	50,998
Certificates of deposit, \$100,000 and over	86,811	59,187	58,202
Other certificates of deposit	62,522	50,764	49,954
Total deposits	224,751	301,754	311,108
Securities sold under repurchase agreements	638	175	379
Federal Home Loan Bank (FHLB) advances	29,920	15,200	15,200
Accrued interest payable and other liabilities	646	1,616	581
Total liabilities	255,955	318,745	327,268
Shareholders' equity			
Common stock	36,724	17,395	17,395
Retained earnings	11,047	9,914	9,297
Accumulated other comprehensive loss, net of taxes	(180)	(266)	(69)
Total shareholders' equity	47,591	27,043	26,623
Total liabilities and shareholders' equity	<u>\$ 303,546</u>	<u>\$ 345,788</u>	<u>\$ 353,891</u>

**Earnings Summary
(In Thousands)**

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net Interest Income	\$ 2,827	\$ 2,700	\$ 8,320	\$ 7,595
Provision for Loan Losses	31	111	253	333
Noninterest Income	345	584	1,002	1,456
Noninterest Expense	1,892	1,788	5,350	4,974
Provision for Income Taxes	515	562	1,552	1,533
Net Income	<u>\$ 734</u>	<u>\$ 823</u>	<u>\$ 2,167</u>	<u>\$ 2,211</u>
Selected per Share Data:				
Basic Earnings Per Share	\$ 0.16	\$ 0.24	\$ 0.57	\$ 0.66
Diluted Earnings Per Share	\$ 0.16	\$ 0.24	\$ 0.57	\$ 0.66
Book Value Per Share	\$ 9.93	\$ 7.92	\$ 9.93	\$ 7.92
Selected Ratios: (1)				
Return on Average Assets	0.96%	1.03%	0.96%	1.07%
Return on Average Equity	6.63%	12.36%	8.77%	11.39%
Return on Average Tangible Equity	7.31%	14.64%	10.02%	13.54%
Efficiency Ratio	59.65%	54.45%	57.39%	54.95%
Net Interest Margin	3.96%	3.59%	3.93%	3.93%
Dividend Payout Ratio	58.45%	36.70%	47.72%	41.07%
Average Equity to Average Assets	14.48%	8.32%	10.95%	9.36%