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# FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

## FORM 8-K

### CURRENT REPORT

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

Date of Report (Date of earliest event reported): July 30, 2007

### Summit State Bank

(Exact name of registrant as specified in its charter)

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

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

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

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

On July 30, 2007, the registrant issued the press release attached hereto as Exhibit 99 and incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits**

**(c) Exhibits:**

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

**SIGNATURE**

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

Dated: July 30, 2007

**SUMMIT STATE BANK**

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

**Exhibit Index**

<u>Exhibit Number</u>	<u>Description</u>
99	Press release of Summit State Bank dated July 30, 2007 announcing results of operations for the quarter ended June 30, 2007 and declaration of dividend.

# News Release

For Immediate Release

**Contact: Dennis E. Kelley, Senior VP and CFO, Summit State Bank (707)568-4910**

## **Summit State Bank Reports Second Quarter Earnings and Declaration of Dividend**

SANTA ROSA, CA – (July 30, 2007) – Summit State Bank (Nasdaq GM: SSBI) today reported net income of \$400,000 or \$0.08 per diluted share for the quarter ended June 30, 2007 compared to net income of \$683,000 or \$0.20 per diluted share for the second quarter of 2006. Net income for the six months ended June 30, 2007 was \$992,000 or \$0.20 per diluted share compared to net income of \$1,433,000 or \$0.42 per diluted share in 2006. Also the Board of Directors declared a dividend of nine cents per share on the Company's common stock. Earnings and dividends per share information for all periods presented give effect to the 2-for-1 stock split issued in June 2006.

### Dividend

On July 30, 2007, the Board of Directors declared a quarterly cash dividend of \$.09 per share on the Company's common Stock. The dividend is payable August 21, 2007 to shareholders of record as of the close of business on August 10, 2007.

### Net Income

The Bank had net income of \$400,000 or \$0.08 per diluted share for the quarter ended June 30, 2007. This compares to net income of \$683,000 or \$0.20 per diluted share for the second quarter of 2006. Net income for the six months ended June 30, 2007 was \$992,000 or \$0.20 per diluted share compared to net income of \$1,433,000 or \$0.42 per diluted share in 2006.

On August 16, 2006, SSB completed an underwritten public offering of 1,432,700 shares of common stock. These shares increased the weighted average shares outstanding for the second quarter and six months ending June 30, 2007 over the second quarter and six month period in 2006 by 43%. The diluted earnings per share decline in the second quarter of 2007 of \$0.12 per share as compared to the prior year second quarter was comprised of a decline of \$0.08 per share attributable to the decline in net income and \$0.04 per share decline attributable to the increase in weighted average shares outstanding. The diluted earnings per share decline for the first six months of 2007 of \$0.22 per share as compared to the same period in the prior year was comprised of a decline of \$0.13 per share attributable to the decline in net income and \$0.09 per share decline attributable to the increase in weighted average shares outstanding.

Total shareholder equity was \$47,868,000 at June 30, 2007 compared to \$27,670,000 at June 30, 2006. At June 30, 2007 there were 4,844,720 common shares outstanding with a per share book value of \$9.88 compared to 3,362,020 shares outstanding at June 30, 2006 with a per share book value of \$8.23.

Annualized return on average assets and annualized return on average equity was 0.49% and 3.32% for the three months ended June 30, 2007, as compared to 0.94% and 9.93% for the same period one year ago. Annualized return on average assets and return on equity for the six months period was 0.62% and 4.15% for 2007, as compared to 0.96% and 10.50% for 2006. Annualized return on average tangible equity was 3.63% for the three months ended June 30, 2007, as compared to 11.67% for the same quarter one year ago. Annualized return on average tangible equity was 4.54% for the six months ended June 30, 2007 compared to 12.35% for the six months ended June 30, 2006.

The Bank experienced a decline in net income during the second quarter of 2007 as compared to the second quarter of 2006, primarily due to an increased provision for loan losses, and increased operating expenses, and to a lesser extent, a reduction in revenue.

#### Net Interest Income

Net interest income declined \$57,000 or 2% to \$2,635,000 during the second quarter of 2007 compared to \$2,692,000 for the same quarter of 2006. The annualized net interest margin declined to 3.43% for the three months ended June 30, 2007, compared to 3.94% for the three months ended June 30, 2006. The net interest margin continues to be negatively impacted as rates on deposits continue to reprice upward while the change in yields on earning assets have slowed as the Federal Reserve stopped increasing short-term rates, and the growth in loans has been funded through time deposits or FHLB advances.

Average earning assets were \$307,893,000 for the second quarter of 2007, as compared to \$273,804,000 for the second quarter of 2006. The annualized yield on average earning assets was 7.30% and the annualized cost of average interest-bearing liabilities was 4.48% for the second quarter of 2007, as compared to the annualized yield on average earning assets of 7.21% and annualized cost of interest-bearing liabilities of 3.57% for the second quarter of 2006.

Net interest income declined \$95,000 or 2% to \$5,399,000 during the first six months of 2007 compared to \$5,494,000 for the same period in 2006. The net interest margin declined to 3.59% for the six months ended June 30, 2007, compared to 3.92% for the six months ended June 30, 2006.

#### Non-interest Income

For the second quarter 2007, total non-interest income was \$313,000, as compared to \$334,000 for the second quarter of 2006. Non-interest income in 2006 included the recovery of \$34,000 in loan collection legal expenses included in other income in the second quarter of 2006. For the six month periods, non-interest income was \$607,000 at June 30, 2007 and \$656,000 at June 30, 2006.

#### Non-interest Expense

For the second quarter 2007, non-interest expense increased \$277,000 or 16% to \$2,002,000, compared to the same quarter in 2006. Salaries and employee benefits expense increased \$67,000 or 7.5% to \$957,000. Occupancy and equipment expenses

increased \$51,000 or 15% and other operating expenses increased \$159,000 or 32% for the second quarter of 2007 as compared to the second quarter of 2006. Part of the increase in salaries and employee benefits expense and occupancy and equipment expense were attributable to personnel hired and space leased in the first quarter of 2007 for the new regional office in Petaluma which was opened in July 2007. The increase in other operating expense was partially due to increased loan collection expenses.

#### Loan and Deposit Activity

Total loans as of June 30, 2007 were \$266,219,000, an increase of \$15,870,000 or 6%, compared to total loans of \$250,349,000 at June 30, 2006.

Total deposits were \$245,270,000 at June 30, 2007, compared to \$236,394,000 at June 30, 2006, a 4% increase.

Total assets were \$330,732,000 at June 30, 2007, an increase of \$31,386,000 or 10%, compared to \$299,346,000 at June 30, 2006.

#### Nonperforming Assets, Allowance and Provision For Loan Losses

Nonperforming assets at June 30, 2007 include loans on nonaccrual of \$341,000 or 0.13% of gross loans and other real estate owned (“OREO”) of \$921,000. This is a decline as compared to the non performing asset total at March 31, 2007 which was \$2,110,000. The nonaccrual amount at June 30, 2007 consists of one loan restructured in 2006 and this loan is current with the restructured terms. The OREO at June 30, 2007 consists of one commercial property from a loan foreclosure recorded at estimated market value, net of estimated sales commission.

The provision for loan losses was \$260,000 for the second quarter ended June 30, 2007 as compared to \$111,000 in the second quarter of 2006. The increase reflects the growth in loan totals and loan charge-offs. Loans charged-off for the second quarter of 2007 were \$642,000. At June 30, 2007, the allowance for loan losses was \$3,175,000 and represented a ratio to gross loans of 1.19% and to nonaccrual loans of 931%. These ratios compare to 1.48% and 387% at June 30, 2006.

#### About Summit State Bank

Summit State Bank has total assets of \$331 million and total equity of \$48 million at June 30, 2007. It provides diverse financial products and services which are marketed through Sonoma County, California with offices located in Santa Rosa, Rohnert Park, Petaluma and Windsor. Summit State Bank stock is traded on the Nasdaq Global Market under the symbol SSBI.

#### Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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, Annual Report on Form 10-K 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**  
(In thousands except for earnings per share data)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Interest and fees on loans	\$ 4,986	\$ 4,554	\$ 9,948	\$ 8,824
Interest on Federal funds sold	2	4	2	244
Interest on investment securities and deposits in banks	589	337	1,132	677
Dividends on FHLB stock	30	25	58	46
	<u>5,607</u>	<u>4,920</u>	<u>11,140</u>	<u>9,791</u>
Total interest income				
Interest expense:				
Deposits	2,426	1,759	4,771	3,625
Securities sold under repurchase agreements	1	6	2	6
FHLB Advances	545	463	968	666
	<u>2,972</u>	<u>2,228</u>	<u>5,741</u>	<u>4,297</u>
Total interest expense				
Net interest income before provision for loan losses	2,635	2,692	5,399	5,494
Provision for loan losses	260	111	331	222
	<u>2,375</u>	<u>2,581</u>	<u>5,068</u>	<u>5,272</u>
Net interest income after provision for loan losses				
Non-interest income:				
Service charges	95	78	181	162
Office leases	166	167	332	318
Gains on sales of loans	27	5	41	22
Real estate exchange fees	2	7	7	23
Loan servicing, net	19	13	29	31
Other income	4	64	17	100
	<u>313</u>	<u>334</u>	<u>607</u>	<u>656</u>
Total non-interest income				
Non-interest expense:				
Salaries and employee benefits	957	890	1,956	1,767
Occupancy and equipment	390	339	757	661
Other expenses	655	496	1,269	1,030
	<u>2,002</u>	<u>1,725</u>	<u>3,982</u>	<u>3,458</u>
Total non-interest expense				
Income before provision for income taxes	686	1,190	1,693	2,470
Provision for Income taxes	286	507	701	1,037
	<u>\$ 400</u>	<u>\$ 683</u>	<u>\$ 992</u>	<u>\$ 1,433</u>
Net income				
Basic earnings per share	<u>\$ 0.08</u>	<u>\$ 0.20</u>	<u>\$ 0.21</u>	<u>\$ 0.43</u>
Basic earnings per share				
Diluted earnings per share	<u>\$ 0.08</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.42</u>
Diluted earnings per share				
Basic weighted average shares of common stock outstanding	<u>4,844,720</u>	<u>3,361,579</u>	<u>4,836,985</u>	<u>3,361,505</u>
Basic weighted average shares of common stock outstanding				
Diluted weighted average shares of common stock outstanding	<u>4,856,609</u>	<u>3,393,798</u>	<u>4,848,874</u>	<u>3,377,530</u>
Diluted weighted average shares of common stock outstanding				

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

(In thousands)

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 5,932	\$ 5,950
Federal funds sold	690	-
Total cash and cash equivalents	<u>6,622</u>	<u>5,950</u>
Time deposits in banks	160	652
Available-for-sale investment securities - amortized cost of \$35,317 in 2007 and \$26,104 in 2006	34,502	21,671
Held-to-maturity investment securities - market value of \$4,820 in 2007 and \$4,868 in 2006	5,000	5,000
Loans, less allowance for loan losses of \$3,175 in 2007 and \$3,704 in 2006	263,044	246,645
Bank premises and equipment, net	8,482	8,406
Other real estate owned	921	-
Investment in Federal Home Loan Bank stock, at cost	3,305	2,609
Goodwill	4,119	4,119
Accrued interest receivable and other assets	<u>4,577</u>	<u>4,294</u>
Total assets	<u>\$ 330,732</u>	<u>\$ 299,346</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 11,701	\$ 10,490
Demand - interest-bearing	11,724	13,168
Savings	12,296	42,666
Money market	37,624	37,855
Time deposits, \$100 thousand and over	85,396	76,305
Other time deposits	<u>86,529</u>	<u>55,910</u>
Total deposits	245,270	236,394
Securities sold under repurchase agreements	101	911
Federal Home Loan Bank (FHLB) advances	36,620	33,755
Accrued interest payable and other liabilities	<u>873</u>	<u>616</u>
Total liabilities	<u>282,864</u>	<u>271,676</u>
Shareholders' equity		
Preferred stock, no par value; 20,000 shares authorized; none issued		
Common stock, no par value; shares authorized - 30,000; shares issued and outstanding 4,845 at June 30, 2007 and 3,362 outstanding at June 30, 2006	36,956	17,402
Retained earnings	11,376	10,743
Accumulated other comprehensive loss, net of taxes	<u>(464)</u>	<u>(475)</u>
Total shareholders' equity	<u>47,868</u>	<u>27,670</u>
Total liabilities and shareholders' equity	<u>\$ 330,732</u>	<u>\$ 299,346</u>

(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 2,635	\$ 2,692	\$ 5,399	\$ 5,494
Provision for loan losses	260	111	331	222
Noninterest income	313	334	607	656
Noninterest expense	2,002	1,725	3,982	3,458
Provision for income taxes	286	507	701	1,037
Net income	<u>\$ 400</u>	<u>\$ 683</u>	<u>\$ 992</u>	<u>\$ 1,433</u>
<b>Selected per Share Data:</b>				
Basic earnings per share	\$ 0.08	\$ 0.20	\$ 0.21	\$ 0.43
Diluted earnings per share	\$ 0.08	\$ 0.20	\$ 0.20	\$ 0.42
Book value per share (2)	\$ 9.88	\$ 8.23	\$ 9.88	\$ 8.23
<b>Selected Ratios:</b>				
Return on average assets (1)	0.49%	0.94%	0.62%	0.96%
Return on average equity (1)	3.32%	9.93%	4.15%	10.50%
Return on average tangible equity (1)	3.63%	11.67%	4.54%	12.35%
Efficiency ratio	67.91%	57.01%	66.30%	56.23%
Net interest margin (1)	3.43%	3.94%	3.59%	3.92%
Dividend payout ratio	109.25%	44.22%	87.90%	42.22%
Average equity to average assets	14.75%	9.48%	14.93%	9.14%
Nonperforming loans to total loans (2)	0.13%	0.38%	0.13%	0.38%
Nonperforming assets to total assets (2)	0.38%	0.32%	0.38%	0.32%
Allowance for loan losses to total loans (2)	1.19%	1.48%	1.19%	1.48%
Allowance for loan losses to nonperforming loans (2)	931.09%	386.64%	931.09%	386.64%

(1) Annualized.

(2) As of period end