

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, 2007

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 [x] 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 [X]

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

As of May 8, 2007 there were 4,844,720 shares of common stock outstanding.

Summit State Bank

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1	Financial Statements	
	Consolidated Balance Sheets (unaudited)	3
	Consolidated Statements of Income (unaudited)	4
	Consolidated Statements of Changes in Shareholders' Equity (unaudited)	5
	Consolidated Statements of Cash Flows (unaudited)	6
	Notes to Consolidated Financial Statements (unaudited)	8
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3	Quantitative and Qualitative Disclosures about Market Risk	22
Item 4	Controls and Procedures	22

PART II OTHER INFORMATION

Item 1	Legal Proceedings	23
Item 1A	Risk Factors	23
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3	Defaults Upon Senior Securities	23
Item 4	Submission of Matters to a Vote of Security Holders	23
Item 5	Other Information	23
Item 6	Exhibits	23
	SIGNATURES	24
	EXHIBIT INDEX	24

PART I FINANCIAL INFORMATION
Item 1 Financial Statements

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>March 31,</u> <u>2007</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2006</u>
ASSETS		
Cash and due from banks	\$ 4,697	\$ 10,606
Federal funds sold	2,200	-
Total cash and cash equivalents	<u>6,897</u>	<u>10,606</u>
Time deposits in banks	160	457
Available-for-sale investment securities - amortized cost of \$36,092 at March 31, 2007 and \$26,104 at December 31, 2006	35,876	25,829
Held-to-maturity investment securities - market value of \$4,886 at March 31, 2007 and \$4,868 at December 31, 2006	5,000	5,000
Loans, less allowance for loan losses of \$3,557 at March 31, 2007 and \$3,736 at December 31, 2006	256,521	252,860
Bank premises and equipment, net	8,228	8,175
Investment in Federal Home Loan Bank stock, at cost	2,181	1,699
Goodwill	4,119	4,119
Accrued interest receivable and other assets	<u>4,359</u>	<u>4,205</u>
Total assets	<u>\$ 323,341</u>	<u>\$ 312,950</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	\$ 12,632	\$ 11,188
Demand - interest-bearing	13,271	12,623
Savings	14,659	19,331
Money market	56,129	47,335
Time deposits, \$100 thousand and over	88,526	80,160
Other time deposits	<u>53,234</u>	<u>62,337</u>
Total deposits	238,451	232,974
Securities sold under repurchase agreements	125	257
Federal Home Loan Bank (FHLB) advances	35,975	31,460
Accrued interest payable and other liabilities	<u>550</u>	<u>447</u>
Total liabilities	<u>275,101</u>	<u>265,138</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 March 31, 2007 and 4,795 outstanding at December 31, 2006	36,956	36,698
Retained earnings	11,413	11,256
Accumulated other comprehensive loss, net of taxes	<u>(129)</u>	<u>(142)</u>
Total shareholders' equity	<u>48,240</u>	<u>47,812</u>
Total liabilities and shareholders' equity	<u>\$ 323,341</u>	<u>\$ 312,950</u>

The accompanying notes are an integral part of these 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, 2007	March 31, 2006
	(Unaudited)	(Unaudited)
Interest income:		
Interest and fees on loans	\$ 4,962	\$ 4,271
Interest on Federal funds sold	-	240
Interest on investment securities and deposits in banks	543	340
Dividends on FHLB stock	28	21
Total interest income	5,533	4,872
Interest expense:		
Deposits	2,345	1,866
Securities sold under repurchase agreements	1	1
FHLB Advances	423	203
Total interest expense	2,769	2,070
Net interest income before provision for loan losses	2,764	2,802
Provision for loan losses	71	111
Net interest income after provision for loan losses	2,693	2,691
Non-interest income:		
Service charges	85	84
Office leases	166	151
Gains on sales of loans	14	17
Real estate exchange fees	5	16
Loan servicing, net	10	17
Other income	14	37
Total non-interest income	294	322
Non-interest expense:		
Salaries and employee benefits	999	877
Occupancy and equipment	367	322
Other expenses	614	534
Total non-interest expense	1,980	1,733
Income before provision for income taxes	1,007	1,280
Provision for Income taxes	415	530
Net income	\$ 592	\$ 750
Basic earnings per share	\$ 0.12	\$ 0.22
Diluted earnings per share	\$ 0.12	\$ 0.22
Basic weighted average shares of common stock outstanding	4,828	3,361
Diluted weighted average shares of common stock outstanding	4,842	3,378

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

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Months Ended March 31, 2007 (Unaudited) and the Year Ended December 31, 2006
(In thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income
	Shares	Amount				
Balance, January 1, 2006	3,361	\$ 17,395	\$ 9,914	\$ (266)	\$ 27,043	
Comprehensive income:						
Net income			2,808		2,808	\$ 2,808
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				124	124	<u>124</u>
Total comprehensive income						<u>\$ 2,932</u>
Stock issued	1,434	19,303			19,303	
Cash dividends - \$.36 per share			(1,466)		(1,466)	
Balance, December 31, 2006	4,795	\$ 36,698	\$ 11,256	\$ (142)	\$ 47,812	
Comprehensive income:						
Net income (unaudited)			592		592	\$ 592
Other comprehensive income, net of tax:						
Net change in unrealized losses on available-for-sale investment securities (unaudited)				13	13	<u>13</u>
Total comprehensive income (unaudited)						<u>\$ 605</u>
Stock issued (unaudited)	50	258			258	
Cash dividends - \$.09 per share (unaudited)			(435)		(435)	
Balance, March 31, 2007 (unaudited)	<u>4,845</u>	<u>\$ 36,956</u>	<u>\$ 11,413</u>	<u>\$ (129)</u>	<u>\$ 48,240</u>	

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

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2007 and 2006

(In thousands)

	<u>Three Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2007</u>	<u>2006</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Cash flows from operating activities:		
Net income	\$ 592	\$ 750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	182	173
Net (decrease) increase in deferred loan fees	24	(45)
Provision for loan losses	71	111
Gains on sales of loans	(14)	(17)
Loans originated for sale	(170)	(150)
Proceeds from sales of loans held for sale	184	167
Dividends on Federal Home Loan Bank stock	(26)	(17)
Net change in accrued interest receivable and other assets	(202)	(55)
Net change in accrued interest payable and other liabilities	103	(1,273)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	744	(356)
	<hr/>	<hr/>
Cash flows from investing activities:		
Decrease in time deposits in banks	297	588
Purchases of available-for-sale investment securities	(10,000)	-
Proceeds from calls and maturities of available-for-sale investment securities	14	-
Purchase of Federal Home Loan Bank stock	(456)	(805)
Net change in loans	(3,756)	(2,357)
Purchases of bank premises and equipment	(235)	(27)
	<hr/>	<hr/>
Net cash used in investing activities	(14,136)	(2,601)
	<hr/>	<hr/>

(Continued)

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2007 and 2006

(In thousands)

	<u>Three Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2007</u>	<u>2006</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Cash flows from financing activities:		
Net (decrease) increase in demand, NOW, savings and money market deposits	6,214	(69,707)
Net change in certificates of deposit	(737)	6,101
Net change in securities sold under repurchase agreements	(132)	422
Net change in short term FHLB advances	2,515	-
Proceeds from long term FHLB advances	2,000	5,000
Repayment of long term FHLB advances	-	-
Issuance of common stock	258	-
Dividends paid on common stock	(435)	(302)
	<u>9,683</u>	<u>(58,486)</u>
Net cash (used in) provided by financing activities		
	(3,709)	(61,443)
(Decrease) increase in cash and cash equivalents		
Cash and cash equivalents at beginning of year	<u>10,606</u>	<u>65,556</u>
Cash and cash equivalents at end of period	<u>\$ 6,897</u>	<u>\$ 4,113</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest expense	\$ 2,763	\$ 3,045
Income taxes, net of refunds	\$ 300	\$ 400

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

SUMMIT STATE BANK AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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, 2007 and for the three months ended March 31, 2007 and 2006 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 position of the Bank at March 31, 2007, the changes in shareholders' equity for the three months ended March 31, 2007, the consolidated results of operations for the three months ended March 31, 2007 and 2006, and cash flows for the three months ended March 31, 2007 and 2006.

The unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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 financial statements and notes thereto included in the Bank's Annual report on Form 10-K on file with the FDIC.

The accounting and reporting policies of the Bank and subsidiary conform to the accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 Per Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Bank. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements. Accordingly, all share and per share information reflects the two-for-one stock split paid on June 14, 2006.

The factors used in the earnings per share computation follow:

	<u>March 31,</u>	
(in thousands except earnings per share)	<u>2007</u>	<u>2006</u>
Basic		
Net income	<u>\$ 592</u>	<u>\$ 750</u>
Weighted average common shares outstanding	<u>5</u>	<u>3</u>
Basic earnings per common share	<u>\$ 0.12</u>	<u>\$ 0.22</u>
Diluted		
Net income	<u>\$ 592</u>	<u>\$ 750</u>
Weighted average common shares outstanding for basic earnings per common share	5	3
Add: Dilutive effects of assumed exercises of stock options	<u>-</u>	<u>-</u>
Average shares and dilutive potential common shares	<u>5</u>	<u>3</u>
Diluted earnings per common share	<u>\$ 0.12</u>	<u>\$ 0.22</u>

Adoption of New Accounting Standards

FASB Interpretation 48

The Bank adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no affect on the Bank's consolidated financial statements.

The Bank and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of California. The Bank is no longer subject to examination by federal taxing authorities for years before 2003 and by state taxing authorities for years before 2002. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense. The Bank did not have any amounts accrued for interest and penalties at March 31, 2007.

SFAS No. 156

The Bank adopted Statement of Financial Accounting Standard No. 156 “Accounting for Servicing of Financial Assets” (“SFAS No. 156”), as of January 1, 2007. SFAS No. 156 requires separately recognized servicing assets and servicing liabilities to be initially measured at fair value and permits the Bank to elect to measure servicing assets and servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur or to continue to amortize the servicing assets over the loan service period with periodic impairment assessment. The Bank has elected to continue to amortize its servicing assets. There was no cumulative effect upon the adoption of SFAS No. 156 and the effect on net income for the three months ended March 31, 2007 was not significant and the Bank’s servicing assets at March 31, 2007 and December 31, 2006 were not considered significant.

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 \$13,000 and \$(58,000) for the three months ended March 31, 2007 and 2006. Total comprehensive income was \$650,000 and \$692,000 for the three months ended March 31, 2007 and 2006.

3. REGULATORY CAPITAL

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

	<u>March 31, 2007</u>	
	<u>Amount</u>	<u>Ratio</u>
<u>Tier 1 Leverage Ratio</u>		
Summit State Bank.....	\$ 44,182,000	14.1%
Minimum requirement for “Well-Capitalized” institution	\$ 15,688,000	5.0%
Minimum regulatory requirement	\$ 12,551,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>		
Summit State Bank.....	\$ 44,182,000	16.6%
Minimum requirement for “Well-Capitalized” institution	\$ 15,944,000	6.0%
Minimum regulatory requirement	\$ 10,630,000	4.0%
<u>Total Risk-Based Capital Ratio</u>		
Summit State Bank.....	\$ 47,509,000	17.9%
Minimum requirement for “Well-Capitalized” institution	\$ 26,574,000	10.0%
Minimum regulatory requirement	\$ 21,259,000	8.0%

4. 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 financial position 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 \$36,941,000 and \$35,471,000 at March 31, 2007 and December 31, 2006, 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 \$2,155,000 and \$2,019,000 at March 31, 2007 and December 31, 2006, 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, 2007 and December 31, 2006. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

5. EFFECT OF NEWLY ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

New accounting standards have been issued that the Bank does not expect will have a material effect on the consolidated financial statements when adopted in future years or for which the Bank has not yet completed its evaluation of the potential effect upon adoption. In general, these standards establish a hierarchy about the assumptions used to measure fair value and provides the option to measure certain financial assets and liabilities at fair value for 2008, and revise the accrual of post-retirement benefits associated with providing life insurance for 2008.

6. SUBSEQUENT EVENT

Cash Dividend

On April 30, 2007, the Board of Directors declared a \$.09 per share cash dividend to shareholders of record at the close of business on May 10, 2007, to be paid on May 21, 2007.

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, 2007 and December 31, 2006, and results of operations for the three months ended March 31, 2007 and 2006. The following analysis should be read in conjunction with the financial statements of the Bank and the notes thereto appearing elsewhere in the report, which were prepared in accordance with accounting principles generally accepted in the United States. The interim financial information provided as of and for the three months ended March 31, 2007 and 2006 is 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 common shares and per share information have been adjusted for a 2-for-1 stock split. The record date for the stock split was June 1, 2006 and was payable on June 14, 2006. All shares and per share amounts in this discussion reflect the impact of the stock split.

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 above 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.

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 assigning potential loss percentages to each credit based on 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 \$3,557,000 at March 31, 2007 and \$3,736,000 at December 31, 2006.

Earnings Summary
(In Thousands)

	Three Months Ended	
	March 31, 2007	March 31, 2006
	(Unaudited)	(Unaudited)
Statement of Income Data:		
Net interest income	\$ 2,764	\$ 2,802
Provision for loan losses	71	111
Noninterest income	294	322
Noninterest expense	1,980	1,733
Provision for income taxes	415	530
Net income	\$ 592	\$ 750

Selected per Share Data:

Basic earnings per share	\$ 0.12	\$ 0.22
Diluted earnings per share	\$ 0.12	\$ 0.22
Book value per share	\$ 9.96	\$ 8.16

Selected Ratios:

Return on average assets (1)	0.76%	0.98%
Return on average equity (1)	4.99%	11.09%
Return on average tangible equity (1)	5.46%	13.05%
Efficiency ratio	64.75%	55.47%
Net interest margin (1)	3.75%	3.89%
Dividend payout ratio	73.48%	40.27%
Average equity to average assets	15.13%	8.83%
Nonperforming loans to total loans	0.81%	0.14%
Allowance for loan losses to total loans	1.37%	1.48%

(1) Annualized.

Results of Operations

Three months ended March 31, 2007 and March 31, 2006

Net Income

For the three months ended March 31, 2007, net income was \$592,000, or \$0.12 per diluted share, representing an annualized return on average assets of 0.76%. This compares with earnings of \$750,000, or \$0.22 per diluted share, for the three months ended March 31, 2006, representing an annualized return on average assets of 0.98%. The period-over-period earnings decline of \$158,000, or 21%, is attributable to the decline in net interest margin, decline in non-interest income and higher operating expenses partially offset by a lower provision for loan losses and lower provision for income taxes.

On August 16, 2006, the Bank completed an underwritten public offering, of 1,432,700 shares of common stock. These shares increased the weighted average shares outstanding for the first quarter ending March 31, 2007, over the same quarter in 2006 by 43%. The diluted earnings per share decline between the quarters of

\$0.10 was comprised of a decline of \$0.05 attributable to the decline in net income and \$0.05 decline attributable to the increase in weighted average shares outstanding.

Net Interest Income and Net Interest Margin

Net interest income declined \$38,000 or 1% to \$2,764,000 during the first quarter of 2007 compared to \$2,802,000 for the same quarter of 2006. The net interest margin declined to 3.75% for the three months ended March 31, 2007, compared to 3.89% for the three months ended March 31, 2006. The net interest margin continues to be impacted as rates on maturing and new deposits continue to rise while the increase in yields on earning assets have slowed as the Federal Reserve stopped increasing rates. In the Bank's local market there is competition for new certificates of deposits and under the current interest rate environment, the resulting pressures on the Bank's cost of funds will likely have a dampening effect on the Bank's future net interest margin and increases in future net interest income will most likely come predominately from increases in the volume of earning assets.

Average earning assets were \$298,851,000 for the first quarter of 2007, as compared to \$292,080,000 for the first quarter of 2006. The yield on earning assets was 7.51% and the cost of interest-bearing liabilities was 4.39% for the first quarter of 2007, as compared to the yield on earning assets of 6.76% and cost of interest-bearing liabilities of 3.11% for the first quarter of 2006.

Anticipating future growth in the balance sheet which would include a proportionate amount of additional investment securities, the Bank added \$10,000,000 in new US Government sponsored agency securities with an interest spread to the incremental cost of funds of approximately 1%. While this increase in investments adds to the net interest income, it also has a dampening effect on the current net interest margin.

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 Ending</u>			<u>Three Months Ending</u>		
	<u>March 31, 2007</u>			<u>March 31, 2006</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</u>	<u>Balance</u>	<u>Income/</u>	<u>Rate</u>
		<u>Expense</u>			<u>Expense</u>	
Assets						
Interest earning assets:						
Interest bearing deposits with banks	\$ 278	\$ 2	2.92%	\$ 1,270	\$ 15	4.79%
Taxable investment securities	39,404	569	5.86%	26,544	346	5.29%
Federal funds sold	76	-	0.00%	22,710	240	4.29%
Loans, net (1)	259,093	4,962	7.77%	241,556	4,271	7.17%
Total earning assets/interest income	<u>298,851</u>	<u>5,533</u>	7.51%	<u>292,080</u>	<u>4,872</u>	6.76%
Nonearning assets						
Allowance for loan losses	<u>22,741</u>			<u>22,183</u>		
		<u>(3,634)</u>			<u>(3,665)</u>	
Total assets	<u>\$ 317,958</u>			<u>\$ 310,598</u>		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	\$ 13,139	24	0.74%	\$ 16,770	14	0.34%
Savings and money market	63,268	562	3.60%	120,762	798	2.68%
Time deposits	144,786	1,759	4.93%	113,114	1,054	3.78%
Repurchase agreements	228	1	1.78%	139	1	2.92%
FHLB advances	34,569	423	4.96%	19,309	203	4.26%
Total interest bearing liabilities/interest expense	<u>255,990</u>	<u>2,769</u>	4.39%	<u>270,094</u>	<u>2,070</u>	3.11%
Noninterest bearing deposits	11,684			9,862		
Other liabilities	<u>2,170</u>			<u>3,216</u>		
Total liabilities	<u>269,844</u>			<u>283,172</u>		
Shareholders' equity	<u>48,114</u>			<u>27,426</u>		
Total liabilities and shareholders' equity	<u>\$ 317,958</u>			<u>\$ 310,598</u>		
Net interest income and margin (2)		<u>\$ 2,764</u>	3.75%		<u>\$ 2,802</u>	3.89%
Net interest spread (3)			3.12%			3.65%

- (1) The net amortization of deferred fees and costs on loans included in interest income was \$79,000 and \$47,000 for the three months ended March 31, 2007 and 2006, 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.

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)

	2007 Compared to 2006 For Quarter Ended March 31		
	Change Due to		
	Volume	Yield/ Rate	Net
Interest income:			
Interest bearing deposits with banks	(9)	(4)	(13)
Taxable investment securities	182	41	223
Federal funds sold	(240)	-	(240)
Loans, net	321	370	691
Total interest income	254	407	661
Interest expense:			
Deposits:			
Interest bearing transaction	(19)	29	10
Savings and money market	(1,428)	1,192	(236)
Time deposits	338	367	705
Repurchase agreements	2	(2)	-
FHLB advances	182	38	220
Total interest bearing liabilities	(925)	1,624	699
Increase (decrease) in net interest income	1,179	(1,217)	(38)

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 a 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 its 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. The Bank 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 examines 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 potential 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.

At March 31, 2007 and March 31, 2006, the Bank's allowance for loan losses totaled \$3,557,000, or 1.37% of outstanding loans, and \$3,593,000, or 1.48% of outstanding loans, respectively. For the three months ended March 31, 2007, the provision for loan losses was \$71,000 and it was \$111,000 for three months ended March 31, 2006. There were \$250,000 in loans charged-off against the allowance in the first quarter of 2007 and \$135,000 in loans charged-off against the allowance for loan losses during the first quarter of 2006.

Non-interest Income

Non-interest income totaled \$294,000 for the three months ended March 31, 2007 and consists primarily of \$85,000 in service charges on deposit accounts, and office lease income of \$166,000. For the three months ended March 31, 2006, non-interest income totaled \$322,000, which included \$84,000 in service charges on deposit accounts and \$151,000 in office lease income.

Gains on sales of SBA-guaranteed loans were \$14,000 and \$17,000 for the three months ended March 31, 2007 and 2006. Gains on sales of loans, service charges on deposit accounts, real estate exchange fees and other sources of noninterest income fluctuate from quarter to quarter as a result of the volume of related activities and can be dependent on interest rates or general economic conditions. For the three months ended March 31, 2007 and 2006, service charges from the Section 1031 Exchange program were, respectively, \$5,000 and \$16,000.

Non-interest Expense

As the Bank has grown in size, certain economies of scale have been achieved and the Bank anticipates continued improvement in this area. However, future operating costs may increase due to expansion activities, including providing new products, compliance with additional regulations, such as those applicable to public companies, and general economic conditions.

For the three months ended March 31, 2007, non-interest expense totaled \$1,980,000, or 2% (annualized) of quarterly average total assets and 65% of total revenue (total revenue is defined as net interest income plus noninterest income). The largest component, salaries and employee benefits, totaled \$999,000, while expenses associated with the occupancy of the Bank's premises and equipment-related expenses totaled \$367,000 and other operating expenses were \$614,000. For the three months ended March 31, 2006, non-interest expenses were \$1,733,000, or 2% (annualized) of quarterly average total assets and 55% of total revenue. Of the total, salaries and employee benefits comprised \$877,000, occupancy and equipment-related expenses totaled \$322,000, and other operating expenses were \$534,000. The increase in expenses between the periods was due to the additional staffing and other expenses related to the growth of the Bank, including increased marketing expenses related to promotional efforts to increase core deposits. Additionally, the Bank leased space and hired personnel for the new Petaluma regional office that will open in the second quarter of 2007.

Provision for Income Taxes

The Bank accrues income tax based on the anticipated tax rates during the financial period covered. The provision for income taxes for the three months ended March 31, 2007 and 2006 was \$415,000 and \$530,000, respectively. The combined effective Federal and State corporate income tax rates for the three months ended March 31, 2007 and 2006 were 41.2% and 41.4%, respectively.

Balance Sheet Activity

At March 31, 2007 and December 31, 2006

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. At March 31, 2007, investment securities comprised 13% of total assets. Available-for-sale investment securities carried at fair value totaled \$35,876,000 at March 31, 2007 compared to amortized cost of \$36,092,000. Securities classified as held-to-maturity are carried at cost and totaled \$5,000,000. The market value of the held-to-maturity securities was \$4,886,000 at March 31, 2007. At December 31, 2006, investment securities comprised 10% of total assets. At December 31, 2006 there were securities classified as held-to-maturity of \$5,000,000 and securities classified as available-for-sale of \$25,829,000. Changes in the fair market 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 within shareholders' equity until realized.

The Bank purchased \$10,000,000 in new issues of U.S. Government sponsored agency securities in the first quarter of 2007. These securities are callable, with maturities of 10 to 15 years and yields of 6.0% to 6.25%.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At March 31, 2007, investment securities with a market value of \$24,193,000, or 59% of the portfolio, were pledged to secure time deposits from the State of California and repurchase agreements. At December 31, 2006, investment securities with a market value of \$17,679,000, or 58% of the portfolio, were pledged. At March 31, 2007, securities with a par value of \$34,000,000 mature or are callable within one year.

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 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 volume percentage change between the dates indicated.

LOANS

(in thousands)	March 31,		December 31,		Net Change	Percent Change
	2007	%	2006	%		
Commercial & Agricultural	\$ 54,507	20.9%	\$ 55,814	21.7%	\$ (1,307)	-2.34%
Real Estate - Commercial	95,151	36.5%	91,557	35.6%	3,594	3.93%
Real Estate-Construction	30,055	11.5%	30,937	12.0%	(882)	-2.85%
Real Estate - 1-4 Family	31,666	12.1%	31,451	12.2%	215	0.68%
Real Estate-Multifamily & Land	37,007	14.2%	35,880	14.0%	1,127	3.14%
Installment Loans to Individuals	5,088	2.0%	4,977	1.9%	111	2.23%
Lease Financing	7,349	2.8%	6,538	2.6%	811	12.40%
	260,823	100%	257,154	100%	3,669	1.43%
LESS:						
Allowance for Loan Losses	(3,557)		(3,736)		179	-4.79%
Deferred Loan Fees	(745)		(558)		(187)	33.51%
Total Loans, Net	\$ 256,521		\$ 252,860		\$ 3,661	1.45%

At March 31, 2007, the Bank had approximately \$36,941,000 in undisbursed loan commitments, of which approximately \$9,840,000 related to real estate construction and commercial real estate loans. Standby letters of credit amounting to \$2,155,000 were in place at March 31, 2007.

At December 31, 2006, the Bank had approximately \$35,471,000 in undisbursed loan commitments, of which approximately \$14,305,000 related to real estate construction loans and commercial real estate loans. At December 31, 2006, there was \$2,019,000 in standby letters of credit outstanding.

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.

In addition to the nonperforming loans discussed below for the respective periods, the Bank owns a General Motors Acceptance Corporation bond which matures September 2011 and has a coupon of 6.875%. The par value is \$500,000 and was carried on the Bank's financial statements at its market value of \$504,000 as of March 31, 2007. General Motors Acceptance Corporation's bonds were downgraded below investment grade in 2005. Management believes that there is no potential of loss in this bond at this time. The interest payments on this bond are being made as scheduled.

Nonaccrual loans were \$2,110,000, or 0.8% of gross loans outstanding, and consisted of three loans at March 31, 2007, one of which was restructured in 2006 and is current with the revised terms. Small Business Administration guarantees back \$323,000 of the nonaccrual balances. One commercial real estate secured loan on nonaccrual status, with a book balance of \$1,380,000, after a partial write-down during the first quarter of 2007, was transferred to other real estate owned after the quarter end.

At March 31, 2007, there were two loan relationships; primarily secured by real estate, totaling \$4,236,000 with respect to which management had concerns as to the ability of the borrowers to continue to comply with the present loan repayment terms and that were not included in nonaccrual 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 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 the Bank to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. The Bank conducts an assessment of the allowance on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated potential 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 \$50,000 reported in other liabilities on the financial statements.

The allowance for loan losses was \$3,557,000 at March 31, 2007 compared to \$3,736,000 at December 31, 2006. The activity in the allowance for loan losses during the first quarter of 2007, included a provision for loan losses of \$71,000 and loan charge-offs of \$250,000, for which the estimated losses had been previously allocated for at December 31, 2006.

Deposits

At March 31, 2007, the Bank had a deposit mix of 59% in time deposits, 30% in money market and savings accounts, and 11% in checking accounts. At December 31, 2006, the Bank had a deposit mix of 61% in time deposits, 29% in money market and savings accounts, 10% in checking accounts.

At March 31, 2007, the State of California had \$25,000,000 in time deposits with the Bank with maturities of 3 to 6 months and collateralized by investment securities or letters of credit issued by the Federal Home Loan Bank. These deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. At December 31, 2006, these time deposits totaled \$20,000,000. At March 31, 2007, the Bank had \$18,178,000 in brokered time deposits, which included deposits raised through the CDARS program locally, this compares to \$19,191,000 in brokered time deposits at December 31, 2006.

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 sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks and market sources of funds 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, deposits with banks and market value of unpledged investment securities, totaled \$23,626,000 at March 31, 2007 and constituted 7% of total assets at that date compared to \$23,756,000 or 8% of total assets from December 31, 2006.

Although the Bank's sources of liquidity include liquid assets and a stable deposit base, the Bank maintains lines of credit with the Federal Home Loan Bank and its correspondent banks. The total of these lines of credit were \$112,884,000 at March 31, 2007, of which \$42,575,000 in Federal Home Loan Bank advances and letter of credit were outstanding. The Bank actively utilizes its borrowing capacity with the Federal Home Loan Bank to manage liquidity as well as a funding alternative to time deposits if the Federal Home Loan Bank's 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, 2007, \$18,375,000 was due within one year and \$17,600,000 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 capital (primarily shareholders' equity) of at least 4.0% of total qualifying capital. The Bank had total and Tier 1 risk-based capital ratios of 17.9% and 16.6% at March 31, 2007, and was "well-capitalized" under the regulatory guidelines.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 risk-based capital to 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, 2007, the Bank's leverage ratio was 14.1%. Capital levels for the Bank remain above established regulatory capital requirements.

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 noninterest 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, 2007, and believes that there have been no material changes since December 31, 2006.

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 at least quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

At March 31, 2007, given a -2.00% or + 2.00% shock in interest rates, the model results in the Bank's net interest income for the next twelve months changing by \$110,000 or 1% and \$(383,000) or -3.4%, respectively.

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

There have been no material changes from the risk factors previously disclosed in the Bank's Form 10 and Form 10-K.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

N/A

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)

_____5/9/07_____

Date

/s/ John C. Lewis

John C. Lewis, Chief Executive Officer

_____5/9/07_____

Date

/s/ Dennis E. Kelley

Dennis E. Kelley, Senior Vice
President and 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, John C. Lewis., 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, 2007;
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-13(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) 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 and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) 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.

5/9/07 /s/ John C. Lewis

Date John C. Lewis
 Chief Executive Officer
 Summit State Bank

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, 2007;
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-13(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) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure and controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) 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.

5/9/07 _____ /s/ Dennis E. Kelley

Date
Dennis E. Kelley
Senior Vice President
and Chief Financial Officer
Summit State Bank

EXHIBIT 32.01

Certification of Chief Executive Officer and Chief 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, 2007, 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.

_____5/9/07_____ /s/ John C. Lewis

John C. Lewis, Chief Executive Officer

_____5/9/07_____ /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.

