

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 September 30, 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 November 6, 2007 there were 4,844,720 shares of common stock outstanding.

# Summit State Bank

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**PART I FINANCIAL INFORMATION**  
**Item 1 Financial Statements**

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

	<u>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Cash and due from banks	\$ 4,224	\$ 10,606
Federal funds sold	-	-
Total cash and cash equivalents	<u>4,224</u>	<u>10,606</u>
Time deposits in banks	160	457
Available-for-sale investment securities - amortized cost of \$35,209 in 2007 and \$26,104 in 2006	34,910	25,829
Held-to-maturity investment securities - market value of \$4,930 in 2007 and \$4,868 in 2006	5,000	5,000
Loans, less allowance for loan losses of \$3,362 in 2007 and \$3,736 in 2006	274,777	252,860
Bank premises and equipment, net	8,577	8,175
Investment in Federal Home Loan Bank stock, at cost	2,203	1,699
Goodwill	4,119	4,119
Accrued interest receivable and other assets	<u>4,047</u>	<u>4,205</u>
Total assets	<u>\$ 338,017</u>	<u>\$ 312,950</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 11,015	\$ 11,188
Demand - interest-bearing	12,299	12,623
Savings	11,484	19,331
Money market	33,670	47,335
Time deposits, \$100,000 and over	91,922	80,160
Other time deposits	<u>86,296</u>	<u>62,337</u>
Total deposits	246,686	232,974
Securities sold under repurchase agreements	4	257
Federal Home Loan Bank (FHLB) advances	42,370	31,460
Accrued interest payable and other liabilities	<u>725</u>	<u>447</u>
Total liabilities	<u>289,785</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 September 30, 2007 and 4,795 at December 31, 2006	36,957	36,698
Retained earnings	11,449	11,256
Accumulated other comprehensive loss, net of taxes	<u>(174)</u>	<u>(142)</u>
Total shareholders' equity	<u>48,232</u>	<u>47,812</u>
Total liabilities and shareholders' equity	<u>\$ 338,017</u>	<u>\$ 312,950</u>

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

**SUMMIT STATE BANK AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except for earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2007 (Unaudited)	September 30, 2006 (Unaudited)	September 30, 2007 (Unaudited)	September 30, 2006 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 5,213	\$ 4,771	\$ 15,161	\$ 13,595
Interest on Federal funds sold	1	27	3	271
Interest on investment securities and deposits in banks	580	429	1,712	1,106
Dividends on FHLB stock	28	28	86	73
Total interest income	<u>5,822</u>	<u>5,255</u>	<u>16,962</u>	<u>15,045</u>
Interest expense:				
Deposits	2,613	2,059	7,384	5,684
Securities sold under repurchase agreements	-	4	2	11
FHLB Advances	478	365	1,446	1,030
Total interest expense	<u>3,091</u>	<u>2,428</u>	<u>8,832</u>	<u>6,725</u>
Net interest income before provision for loan losses	2,731	2,827	8,130	8,320
Provision for loan losses	<u>159</u>	<u>31</u>	<u>490</u>	<u>253</u>
Net interest income after provision for loan losses	<u>2,572</u>	<u>2,796</u>	<u>7,640</u>	<u>8,067</u>
Non-interest income:				
Service charges	76	100	256	262
Office leases	184	163	516	481
Gains on sales of loans	-	40	41	63
Real estate exchange fees	1	12	8	35
Loan servicing, net	21	15	50	46
Other income	8	15	26	115
Total non-interest income	<u>290</u>	<u>345</u>	<u>897</u>	<u>1,002</u>
Non-interest expense:				
Salaries and employee benefits	957	930	2,913	2,696
Occupancy and equipment	431	335	1,187	996
Other expenses	607	627	1,877	1,658
Total non-interest expense	<u>1,995</u>	<u>1,892</u>	<u>5,977</u>	<u>5,350</u>
Income before provision for income taxes	867	1,249	2,560	3,719
Provision for Income taxes	<u>358</u>	<u>515</u>	<u>1,059</u>	<u>1,552</u>
Net income	<u>\$ 509</u>	<u>\$ 734</u>	<u>\$ 1,501</u>	<u>\$ 2,167</u>
Basic earnings per share	\$ 0.11	\$ 0.16	\$ 0.31	\$ 0.57
Diluted earnings per share	\$ 0.10	\$ 0.16	\$ 0.31	\$ 0.57
Basic weighted average shares of common stock outstanding	4,845	4,579	4,840	3,772
Diluted weighted average shares of common stock outstanding	4,853	4,625	4,848	3,817

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

**SUMMIT STATE BANK AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**For the Nine Months Ended September 30, 2007 (Unaudited) and the Year Ended December 31, 2006**

(In thousands, except dividends per share)

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss) (Net of Taxes)</u>	<u>Total Shareholders' Equity</u>	<u>Total Comprehensive Income</u>
	<u>Shares</u>	<u>Amount</u>				
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			<u>(1,466)</u>		<u>(1,466)</u>	
Balance, December 31, 2006	4,795	\$ 36,698	\$ 11,256	\$ (142)	\$ 47,812	
Comprehensive income:						
Net income			1,501		1,501	\$ 1,501
Other comprehensive loss, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				(32)	(32)	<u>(32)</u>
Total comprehensive income						<u>\$ 1,469</u>
Stock issued	50	257			257	
Stock option expense		2			2	
Cash dividends - \$.27 per share			<u>(1,308)</u>		<u>(1,308)</u>	
Balance, September 30, 2007	<u>4,845</u>	<u>\$ 36,957</u>	<u>\$ 11,449</u>	<u>\$ (174)</u>	<u>\$ 48,232</u>	

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

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

(In thousands)

	<b>Nine Months Ended</b>	
	<b>September 30, 2007</b>	<b>September 30, 2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,501	\$ 2,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	565	530
Loss on disposal of bank premises and equipment	31	-
Net (decrease) increase in deferred loan fees	157	(11)
Net loss on sale of foreclosed real estate	4	-
Provision for loan losses	490	253
Gains on sales of loans	(41)	(63)
Loans originated for sale	(661)	(792)
Proceeds from sales of loans held for sale	702	855
Dividends on Federal Home Loan Bank stock	(87)	(73)
Net change in accrued interest receivable and other assets	150	(679)
Net change in accrued interest payable and other liabilities	278	(970)
Stock-based compensation expense	2	-
	3,091	1,217
<b>Net cash provided by operating activities</b>		
	3,091	1,217
<b>Cash flows from investing activities:</b>		
Decrease in time deposits in banks	297	1,178
Purchases of available-for-sale investment securities	(10,000)	(7,961)
Proceeds from calls and maturities of available-for-sale investment securities	895	1,500
Purchase of Federal Home Loan Bank stock	(1,721)	(1,831)
Proceeds from the redemption of Federal Home Loan Bank stock	1,304	1,479
Net change in loans	(23,485)	(12,580)
Purchases of bank premises and equipment	(998)	(168)
Proceeds from sale of foreclosed real estate	917	-
	917	-
	(32,791)	(18,383)
<b>Net cash used in investing activities</b>		

(Continued)

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

(In thousands)

	<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2007</u> <u>(Unaudited)</u>	<u>September 30,</u> <u>2006</u> <u>(Unaudited)</u>
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in demand, NOW, savings and money market deposits	(22,009)	(116,385)
Net change in certificates of deposit	35,721	39,382
Net change in securities sold under repurchase agreements	(253)	463
Net change in short term FHLB advances	3,510	1,720
Proceeds from long term FHLB advances	15,000	13,000
Repayment of long-term FHLB advances	(7,600)	
Issuance of common stock	257	19,329
Dividends paid on common stock	(1,308)	(1,034)
	<u>23,318</u>	<u>(43,525)</u>
Net cash (used in) provided by financing activities		
	(6,382)	(60,691)
(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>\$ 4,224</u>	<u>\$ 4,865</u>
 Supplemental disclosure of cash flow information:		
 Cash paid during the period for:		
Interest expense	\$ 8,742	\$ 7,078
Income taxes, net of refunds	\$ 795	\$ 1,910
Noncash investing activities:		
Transfer from loans to other real estate owned	\$ 921	\$ -
Change in unrealized (losses) gains on available-for- sale investment securities	\$ 30	\$ (123)

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

**SUMMIT STATE BANK AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

On January 15, 1999, Summit State Bank (the “Bank” or “the Bank”) received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Bank was organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings. The Bank was incorporated on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Windsor. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans. The Bank utilizes its subsidiary Alto Service Corporation for its deed of trust services.

The consolidated financial statements as of September 30, 2007 and for the three and nine months ended September 30, 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 statements of the Bank.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three and nine months ended September 30, 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 for the year ended December 31, 2006 on Form 10-K on file with the FDIC.

The accompanying accounting and reporting policies of the Bank and subsidiary conform to the U.S. Generally Accepted Accounting Principles and prevailing practices within the banking industry.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alto Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## *Earnings 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:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
(in thousands except earnings per share)				
<b>Basic</b>				
Net income	\$ 509	\$ 734	\$ 1,501	\$ 2,167
Weighted average common shares outstanding	4,845	4,579	4,840	3,772
Basic earnings per common share	\$ 0.11	\$ 0.16	\$ 0.31	\$ 0.57
<b>Diluted</b>				
Net income	\$ 509	\$ 734	\$ 1,501	\$ 2,167
Weighted average common shares outstanding for basic earnings per common share	4,845	4,579	4,840	3,772
Add: Dilutive effects of assumed exercises of stock options	8	46	8	45
Average shares and dilutive potential common shares	4,853	4,625	4,848	3,817
Diluted earnings per common share	\$ 0.10	\$ 0.16	\$ 0.31	\$ 0.57

## *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 effect 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 September 30, 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 and nine months ended September 30, 2007 was not significant and the Bank’s servicing assets at September 30, 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 \$290,000 and \$295,000 for the three months ended September 30, 2007 and 2006 and \$(32,000) and \$86,000 for the nine months ended September 30, 2007 and 2006. Total comprehensive income was \$799,000 and \$1,029,000 for the three months ended September 30, 2007 and 2006, and \$1,469,000 and \$2,253,000 for the nine months ended September 30, 2007 and 2006.

## 3. REGULATORY CAPITAL

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

	<u>September 30, 2007</u>	
	<u>Amount</u>	<u>Ratio</u>
<u>Tier 1 Leverage Ratio</u>		
Summit State Bank .....	\$ 44,222,000	13.5%
Minimum requirement for “Well-Capitalized” institution .....	\$ 16,439,000	5.0%
Minimum regulatory requirement .....	\$ 13,151,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>		
Summit State Bank .....	\$ 44,222,000	15.0%
Minimum requirement for “Well-Capitalized” institution .....	\$ 17,699,000	6.0%
Minimum regulatory requirement .....	\$ 11,799,000	4.0%
<u>Total Risk-Based Capital Ratio</u>		
Summit State Bank .....	\$ 47,636,000	16.2%
Minimum requirement for “Well-Capitalized” institution .....	\$ 29,498,000	10.0%
Minimum regulatory requirement .....	\$ 23,598,000	8.0%

## 4. STOCK OPTIONS

The shareholders approved the 2007 stock option plan (“Plan”) on May 21, 2007. The Plan reserved 150,000 shares of common stock for issuance to directors and employees. The Plan requires that the option exercise price may not be less than the fair market value of the stock at the date the option is granted. The option expiration dates are determined by the Board of Directors, but may not be later than ten years from the date of grant. In June 2007, 20,000 shares were granted at an exercise price of \$10.92 and a term of ten years.

## 5. COMMITMENTS AND CONTINGENCIES

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the 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 \$45,077,000 and \$35,471,000 at September 30, 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 \$537,000 and \$2,019,000 at September 30, 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 September 30, 2007 and December 31, 2006. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

#### 6. 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.

#### 7. STOCK REPURCHASE PROGRAM

During the third quarter of 2007, the Bank initiated a stock repurchase program under which the Board of Directors authorized the repurchase of up to 100,000 shares of the Bank's common stock. The repurchase price will be at market order with a limit price of \$10.00 per share. The program will expire on September 14, 2008. No shares had been purchased under the program as of September 30, 2007.

#### 8. SUBSEQUENT EVENT

##### *Cash Dividend*

On October 29, 2007, the Board of Directors declared a \$.09 per share cash dividend to shareholders of record at the close of business on November 13, 2007, to be paid on November 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 September 30, 2007 and December 31, 2006, and results of operations for the three and nine months ended September 30, 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 U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three and nine months ended September 30, 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.

All references to yields, cost of liabilities and net interest margin are annualized for the periods discussed.

**Forward Looking Statements.** This discussion includes forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Bank's mission and vision. Factors which may cause actual results to vary from forward-looking statements include, but are not limited to, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the expansion of our business, legislative and regulatory changes, government monetary and fiscal policies, real estate valuations, competition in the financial services industry, demographic changes, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this discussion.

This discussion contains certain forward-looking information about us. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;

- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the war in Iraq;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all;
- the integration of any future acquired businesses costs more, takes longer or is less successful than expected; and
- regulatory approvals for announced or future acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," in our Registration Statement on Form 10, as amended (the "Form 10"), and in our Annual Report on Form 10-K on file with the Federal Deposit Insurance Corporation ("FDIC") and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

We caution that these statements are further qualified by important factors, in addition to those under "Risk Factors" in our Form 10 and in our Annual Report on Form 10-K and elsewhere in this report, which could cause actual results to differ significantly from those in the forward-looking statements, including, among other things, economic conditions and other risks.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q and 8-K.

***Critical Accounting Policies.*** The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

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 probable 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 \$3,362,000 at September 30, 2007 and \$3,736,000 at December 31, 2006.

**Earnings Summary**  
**(In Thousands)**

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 2,731	\$ 2,827	\$ 8,130	\$ 8,320
Provision for loan losses	159	31	490	253
Noninterest income	290	345	897	1,002
Noninterest expense	1,995	1,892	5,977	5,350
Provision for Income taxes	358	515	1,059	1,552
Net income	\$ 509	\$ 734	\$ 1,501	\$ 2,167
<b>Selected per Share Data:</b>				
Basic earnings per share	\$ 0.11	\$ 0.16	\$ 0.31	\$ 0.57
Diluted earnings per share	\$ 0.10	\$ 0.16	\$ 0.31	\$ 0.57
Book value per share (2)	\$ 9.96	\$ 9.93	\$ 9.96	\$ 9.93
<b>Selected Ratios:</b>				
Return on average assets (1)	0.61%	0.96%	0.62%	0.96%
Return on average equity (1)	4.20%	6.63%	4.17%	8.77%
Return on average tangible equity (1)	4.60%	7.31%	4.56%	10.02%
Efficiency ratio	66.04%	59.65%	66.21%	57.39%
Net interest margin (1)	3.45%	3.96%	3.54%	3.93%
Dividend payout ratio	85.66%	58.45%	87.14%	47.72%
Average equity to average assets	14.43%	14.48%	14.76%	10.95%
Nonperforming loans to total loans (2)	0.12%	0.42%	0.12%	0.42%
Nonperforming assets to total assets (2)	0.10%	0.35%	0.10%	0.35%
Allowance for loan losses to total loans (2)	1.21%	1.48%	1.21%	1.48%
Allowance for loan losses to nonperforming loans (2)	1009.61%	350.14%	1009.61%	350.14%

(1) Annualized.

(2) As of period end

## Results of Operations

### *Three and nine months ended September 30, 2007 and September 30, 2006*

#### Net Income

For the three months ended September 30, 2007, net income was \$509,000, or \$0.10 per diluted share, representing an annualized return on average assets of 0.61%. This compares with earnings of \$734,000, or \$0.16 per diluted share, for the three months ended September 30, 2006, representing an annualized return on average assets of 0.96%. Net income for the nine months ended September 30, 2007 was \$1,501,000 or \$0.31 per diluted share compared to \$2,167,000 or \$0.57 per diluted share for the nine months ended September 30, 2006. The period-over-period earnings decline of \$225,000, or 31% for the quarter and \$666,000 or 31% for the nine month periods is attributable to a decline in net interest margin, increased provision for loan losses, a decline in non-interest income and higher operating expenses partially offset by lower provision for income taxes.

On August 16, 2006, the Bank completed an underwritten public offering, of 1,432,700 shares of common stock. Additionally, 50,000 shares of stock were issued in January 2007 for an option exercised. These shares increased the weighted average shares outstanding for the third quarter and nine months ended September 30, 2007, over the same periods in 2006 by 5% for the quarterly periods and 27% for the nine month periods. The diluted earnings per share decline between the third quarters of \$0.06 was comprised of a decline of \$0.05 attributable to the decline in net income and a \$0.01 decline attributable to increased diluted weighted average shares outstanding. The \$0.26 decline in diluted earnings per share for the nine months ended September 30, 2007 over the same period in 2006 was comprised of a \$0.17 decline caused by the decline in net income and a \$0.09 decline attributable to the increase in diluted average shares outstanding.

## **Net Interest Income and Net Interest Margin**

Net interest income declined \$96,000 or 3% to \$2,731,000 for the third quarter of 2007 compared to \$2,827,000 for the same quarter of 2006. The net interest margin declined to 3.45% for the three months ended September 30, 2007, compared to 3.96% for the three months ended September 30, 2006. The annualized net interest margin continues to be negatively impacted as rates on maturing and new deposits continue to rise while the increase in yields on earning assets have slowed.

Average earning assets were \$314,341,000 for the third quarter of 2007, as compared to \$283,233,000 for the third quarter of 2006. The annualized yield on average earning assets was 7.35% and the annualized cost of average interest-bearing liabilities was 4.51% for the third quarter of 2007, as compared to the annualized yield on average earning assets of 7.36% and annualized cost of average interest-bearing liabilities of 3.95% for the third quarter of 2006.

Net interest income declined \$190,000 or 2% to \$8,130,000 for the nine months ended September 30, 2007 compared to \$8,320,000 for the same period of 2006. The net interest margin declined to 3.54% for the nine months ended September 30, 2007, compared to 3.93% for the nine months ended September 30, 2006.

Average earning assets were \$307,085,000 for the nine months ended September 30, 2007, as compared to \$283,006,000 for the same period in 2006. The yield on average earning assets was 7.38% and the cost of average interest-bearing liabilities was 4.46% for the nine months ended September 30, 2007, as compared to the yield on average earning assets of 7.11% and cost of average interest-bearing liabilities of 3.53% for the same period in 2006.

On September 18, 2007, the Federal Reserve Board lowered the Federal funds target rate by 0.5%. This has caused a similar reduction to various rate indexes that the Bank utilized for its adjustable rate commercial and other loans. Management has reduced rates on some deposit accounts in an effort to mitigate these rate changes. (see Item 3. Quantitative and Qualitative Disclosures About Market Risk).

The following tables present 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)

	Three Months Ended			Three Months Ended		
	September 30, 2007			September 30, 2006		
	Average Balance	Interest Income/ Expense	Average Rate (4)	Average Balance	Interest Income/ Expense	Average Rate (4)
<b>Assets</b>						
Interest earning assets:						
Interest bearing deposits with banks	\$ 205	\$ 3	5.81%	\$ 477	\$ 5	4.16%
Taxable investment securities	42,109	605	5.70%	30,657	452	5.85%
Federal funds sold	23	1	3.66%	2,073	27	5.17%
Loans, net (1)	272,004	5,213	7.60%	250,026	4,771	7.57%
Total earning assets/interest income	314,341	5,822	7.35%	283,233	5,255	7.36%
Nonearning assets	21,852			23,721		
Allowance for loan losses	(3,240)			(3,705)		
Total assets	\$ 332,953			\$ 303,249		
<b>Liabilities and Shareholders' Equity</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	\$ 12,426	24	0.77%	\$ 12,158	16	0.52%
Savings and money market	45,133	373	3.28%	60,330	404	2.66%
Time deposits	176,141	2,216	4.99%	141,271	1,639	4.60%
Repurchase agreements	39	-	2.27%	778	4	2.04%
FHLB advances	38,121	478	4.97%	29,211	365	4.96%
Total interest bearing liabilities/interest expense	271,860	3,091	4.51%	243,748	2,428	3.95%
Noninterest bearing deposits	12,074			13,077		
Other liabilities	983			2,509		
Total liabilities	284,917			259,334		
Shareholders' equity	48,036			43,915		
Total liabilities and shareholders' equity	\$ 332,953			\$ 303,249		
Net interest income and margin (2)		\$ 2,731	3.45%		\$ 2,827	3.96%
Net interest spread (3)			2.84%			3.41%

- (1) The net amortization of deferred fees and costs on loans included in interest income was \$57,000 and \$53,000 for the three months ended September 30, 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.
- (4) Annualized.

**Average Balance Sheet and Analysis of Net Interest Income**

(Dollars in thousands)

	<u>Nine Months Ended</u>			<u>Nine Months Ended</u>		
	<u>September 30, 2007</u>			<u>September 30, 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 (4)</u>	<u>Balance</u>	<u>Income/</u>	<u>Rate (4)</u>
		<u>Expense</u>			<u>Expense</u>	
<b>Assets</b>						
Interest earning assets:						
Interest bearing deposits with banks	\$ 213	\$ 6	3.77%	\$ 883	\$ 23	3.48%
Taxable investment securities	41,708	1,792	5.74%	27,952	1,156	5.53%
Federal funds sold	75	3	5.35%	8,302	271	4.36%
Loans, net (1)	265,089	15,161	7.65%	245,869	13,595	7.39%
Total earning assets/interest income	<u>307,085</u>	<u>16,962</u>	<u>7.38%</u>	<u>283,006</u>	<u>15,045</u>	<u>7.11%</u>
Nonearning assets	22,491			22,358		
Allowance for loan losses	(3,468)			(3,687)		
Total assets	<u>\$ 326,108</u>			<u>\$ 301,677</u>		
<b>Liabilities and Shareholders' Equity</b>						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	\$ 12,575	70	0.74%	\$ 14,020	43	0.41%
Savings and money market	53,604	1,386	3.46%	87,888	1,763	2.68%
Time deposits	159,576	5,928	4.97%	123,199	3,878	4.21%
Repurchase agreements	114	2	2.35%	634	11	2.32%
FHLB advances	38,765	1,446	4.99%	28,997	1,030	4.75%
Total interest bearing liabilities/interest expense	<u>264,634</u>	<u>8,832</u>	<u>4.46%</u>	<u>254,738</u>	<u>6,725</u>	<u>3.53%</u>
Noninterest bearing deposits	12,003			11,588		
Other liabilities	1,341			2,311		
Total liabilities	<u>277,978</u>			<u>268,637</u>		
Shareholders' equity	<u>48,130</u>			<u>33,040</u>		
Total liabilities and shareholders' equity	<u>\$ 326,108</u>			<u>\$ 301,677</u>		
Net interest income and margin (2)		<u>\$ 8,130</u>	3.54%		<u>\$ 8,320</u>	3.93%
Net interest spread (3)			2.92%			3.58%

- (1) The net amortization of deferred fees and costs on loans included in interest income was \$179,000 and \$139,000 for the nine months ended September 30, 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.
- (4) Annualized.

The following tables show 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 September 30			
Change Due to			
	Volume	Yield/ Rate	Net
Interest income:			
Interest bearing deposits with banks	\$ (4)	\$ 2	\$ (2)
Taxable investment securities	165	(12)	153
Federal funds sold	(21)	(5)	(26)
Loans, net	<u>421</u>	<u>21</u>	<u>442</u>
Total interest income	561	6	567
Interest expense:			
Interest-bearing transaction	-	8	8
Savings and money market	(114)	83	(31)
Time deposits	430	147	577
Repurchase agreements	(4)	-	(4)
FHLB advances	<u>112</u>	<u>1</u>	<u>113</u>
Total interest expense	424	239	663
Increase (decrease) in net interest income	<u>\$ 137</u>	<u>\$ (233)</u>	<u>\$ (96)</u>

Volume and Yield/Rate Variances

2007 Compared to 2006  
For The Nine Months Ended  
September 30,

	Change Due to		
	Volume	Yield/ Rate	Net
Interest income:			
Interest bearing deposits with banks	\$ (19)	\$ 2	\$ (17)
Taxable investment securities	589	47	636
Federal funds sold	(318)	50	(268)
Loans, net	<u>1,088</u>	<u>478</u>	<u>1,566</u>
Total interest income	1,340	577	1,917
Interest expense:			
Interest-bearing transaction	(5)	32	27
Savings and money market	(802)	425	(377)
Time deposits	1,273	777	2,050
Repurchase agreements	(9)	0	(9)
FHLB advances	<u>362</u>	<u>54</u>	<u>416</u>
Total interest expense	819	1,288	2,107
Increase (decrease) in net interest income	<u>\$ 521</u>	<u>\$ (711)</u>	<u>\$ (190)</u>

## **Provision for Loan Losses**

The Bank maintains an allowance for loan losses for losses that are expected to occur as an incidental part of the banking business. Write-offs of loans are charged against the allowance for loan losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to deterioration in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for loan losses are made through a charge against income referred to as the “provision for loan losses”.

The Bank’s loan policy provides procedures designed to evaluate and assess the credit risk factors associated with 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 probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accruals loans, trends in loan volume, effects of any changes in the lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries for the prior eight quarters.

For the three months ended September 30, 2007, the provision for loan losses was \$159,000 and it was \$31,000 for three months ended September 30, 2006. The provision for loan losses was \$490,000 for the nine months ended September 30, 2007, compared to \$253,000 for the same period in 2006. The increase in the provision for loan losses for the three and nine month periods ended September 30 2007 as compared to 2006 reflects the loan growth, changes in the general real estate economy, and for the nine month periods, net loan charge-offs. There was \$28,000 in loan recoveries for the third quarter of 2007 and no loans charged-off for the 2007 and 2006 third quarters. There were net loan charge-offs of \$864,000 and \$134,000 for the nine month periods ended September 30, 2007 and 2006. See Balance Sheet Activity – Nonperforming Assets and Allowance for Loan Losses for additional discussion.

## **Non-interest Income**

Non-interest income totaled \$290,000 for the three months ended September 30, 2007 and consists primarily of \$76,000 in service charges on deposit accounts, and office lease income of \$184,000. For the three months ended September 30, 2006, non-interest income totaled \$345,000, which included \$100,000 in service charges on deposit accounts and \$163,000 in office lease income.

Gains on sales of SBA-guaranteed loans were \$0 and \$40,000 for the three months ended September 30, 2007 and 2006. Gains on sales of loans, 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 September 30, 2007 and 2006, service charges from the Section 1031 Exchange program were, respectively, \$1,000 and \$12,000.

For the nine months ended September 30, 2007 non-interest income was \$897,000 compared to \$1,002,000 for the nine months ended September 30, 2006. The difference in other income for the nine month periods was attributable to loan prepayment penalties collected in 2006.

## **Non-interest Expense**

Non-interest expenses have increased as expansion plans were implemented and additional costs for regulatory compliance have been incurred including regulations that the Bank became subject to as a public company when it had its initial public offering in July of 2006. Additionally, the general economic slow down has caused an increase in loan collection expenses.

For the three months ended September 30, 2007, non-interest expense totaled \$1,995,000, or 2% (annualized) of quarterly average total assets and 66% of total revenue (total revenue is defined as net interest income plus non-interest income). Non-interest expense for the third quarter of 2006 was \$1,892,000, or 2% (annualized) of quarterly average assets and 60% of total revenue. For the nine months ended September 30, 2007 and 2006, non-interest expense was \$5,977,000 and \$5,350,000 respectively.

For the third quarter of 2007, the largest component of non-interest expense, salaries and employee benefits, totaled \$957,000, while expenses associated with the occupancy of the Bank’s premises and equipment-related expenses totaled \$431,000 and other operating expenses were \$607,000. For the third quarter 2006, salaries and employee benefits comprised \$930,000, occupancy and equipment-related expenses totaled \$335,000, and other operating expenses were \$627,000. 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 deposits. Additionally, the Bank leased space and hired personnel for the new Petaluma regional office that opened in July 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 September 30, 2007 and 2006 was \$358,000 and \$515,000, respectively. Provision for income taxes was \$1,059,000 and \$1,552,000 for the nine months ended September 30, 2007 and 2006, respectively. The combined effective Federal and State corporate income tax rates for the three months ended September 30, 2007 and 2006 were 41.3% and 41.2%, and for the nine months ended September 30, 2007 and 2006 were 41.4% and 41.7%.

### **Balance Sheet Activity**

#### **At September 30, 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 September 30, 2007, investment securities comprised 12% of total assets. Available-for-sale investment securities carried at fair value totaled \$34,910,000 at September 30, 2007 compared to amortized cost of \$35,209,000. 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 \$4,930,000 at September 30, 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 September 30, 2007, investment securities with a market value of \$32,454,000, or 81% 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 57% of the portfolio, were pledged. At September 30, 2007, securities with a par value of \$33,250,000 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 dollar volume and percentage change between the dates indicated.

**Allocation of Allowance for Loans Losses**

(in thousands)	<b>September 30,</b>		<b>December 31,</b>		Net Change	Percent Change
	<b>2007</b>	<b>%</b>	<b>2006</b>	<b>%</b>		
Commercial & Agricultural	\$ 56,054	20.1%	\$ 55,814	21.7%	\$ 240	0.43%
Real Estate - Commercial	103,755	37.2%	91,557	35.6%	12,198	13.32%
Real Estate-Construction	29,298	10.5%	30,937	12.0%	(1,639)	-5.30%
Real Estate - 1-4 Family	40,126	14.4%	31,451	12.2%	8,675	27.58%
Real Estate-Multifamily & Land	36,435	13.1%	35,880	14.0%	555	1.55%
Installment Loans to Individuals	5,882	2.1%	4,977	1.9%	905	18.18%
Lease Financing	7,304	2.6%	6,538	2.6%	766	11.72%
	<u>278,854</u>	<u>100%</u>	<u>257,154</u>	<u>100%</u>	<u>21,700</u>	<u>8.44%</u>
<b>LESS:</b>						
Allowance for Loan Losses	(3,362)		(3,736)		374	-10.01%
Deferred Loan Fees	(715)		(558)		(157)	28.14%
Total Loans, Net	<u>\$ 274,777</u>		<u>\$ 252,860</u>		<u>\$ 21,917</u>	<u>8.67%</u>

At September 30, 2007, the Bank had approximately \$45,077,000 in undisbursed loan commitments, of which approximately \$12,132,000 related to real estate construction and commercial real estate loans. Standby letters of credit amounting to \$537,000 were in place at September 30, 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. Nonaccrual loans were \$333,000, or 0.1% of gross loans outstanding, and consisted of one loan at September 30, 2007, which was restructured in 2006 and is current with the revised terms. As of September 30, 2007 there were no accruing loans that were 90 days or more past due.

In addition to the nonperforming loans discussed above 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 is carried on the Bank's financial statements at its market value of \$467,000 as of September 30, 2007. General Motors Acceptance Corporation's bonds were downgraded below investment grade in 2005 and have a current Moody's rating of Ba1. 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.

The Bank had no other real estate owned ("OREO") at September 30, 2007. At June 30, 2007, the Bank had one commercial real estate property classified as OREO. The property was carried at its estimated sales price, less sales commissions, of \$921,000. The book value of the property was net of a charge-off on the loan of \$459,000 which was charged against the allowance for loan losses during the first and second quarters of 2007. In the third quarter ended September 30, 2007, the OREO was sold with a net loss of \$4,000.

At September 30, 2007, there were 12 loan relationships primarily secured by real estate totaling \$5,427,000 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. The loans are currently performing; however, a weakness in the borrowers or other events have raised concerns about the loans.

## Allowance for Loan Losses

The Bank maintains the allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision 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 \$3,362,000 at September 30, 2007 compared to \$3,736,000 at December 31, 2006. The activity in the allowance for loan losses during the third quarter of 2007 included a provision for loan losses of \$159,000 and loan recoveries of \$28,000. The activity in the allowance for loan losses during the nine months ended September 30, 2007 included a provision for loan losses of \$490,000 and net loan charge-offs of \$864,000, for which approximately \$496,000 of estimated losses were previously allocated for in the allowance for loan losses.

At September 30, 2007, June 30, 2007 and December 31, 2006, the Bank's allowance for loan losses was 1.21%, 1.19% and 1.46% of outstanding loans, respectively. The ratio of the allowance for loan losses has declined as a percent of outstanding loans since December 31, 2006; however the coverage of the allowance for loan losses to nonperforming loans increased to 1,010% at September 30, 2007, compared to 931% at June 30, 2007 and 157% at December 31, 2006.

The following table summarized the activity in the Allowance for Loan Losses during the periods indicated.

SUMMARY OF ACTIVITY IN ALLOWANCE FOR LOAN LOSSES

(Dollars in thousands)

	<u>Nine months ended</u> September 30, 2007	<u>Year Ended</u> December 31, 2006
Balance at beginning of period	\$ 3,736	\$ 3,617
Charge-offs:		
Commerical and agricultural	331	134
Real estate--construction and land development	561	-
Real estate--mortgage	-	-
Installment loans to individuals	-	-
Total loans charged-off	<u>892</u>	<u>134</u>
Recoveries:		
Commerical and agricultural	28	-
Real estate--construction and land development	-	-
Real estate--mortgage	-	-
Installment loans to individuals	-	-
Total recoveries	<u>28</u>	<u>-</u>
Net loans charged-off	864	134
Provision for loan losses	490	253
Allowance for loan losses - end of period	<u>\$ 3,362</u>	<u>\$ 3,736</u>
Loans:		
Average loans outstanding during period, net of unearned income	\$ 265,089	\$ 248,539
Total loans at end of period, net of unearned income	\$ 278,139	\$ 256,596
Ratios:		
Net loans charged-off to average net loans (1)	0.44%	0.05%
Net loans charged-off to total loans (1)	0.42%	0.05%
Allowance for loan losses to average net loans	1.27%	1.50%
Allowance for loan losses to total loans	1.21%	1.46%
Net loans charged-off to beginning allowance for loan losses (1)	30.92%	3.70%
Net loans charged-off to provision for loan losses	176.33%	52.96%
(1) Annualized for nine months ended September 30, 2007		

### Allocation of Allowance for Loan Losses

(in thousands)	September 30,		June 30,		December 31,	
	2007		2007		2006	
	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans
Commercial & Agricultural	\$ 430	20.1%	\$ 430	19.5%	\$ 521	21.7%
Real Estate - Commercial	783	37.2%	757	37.7%	688	35.6%
Real Estate-Construction	389	10.5%	329	11.3%	450	12.0%
Real Estate - 1-4 Family	64	14.4%	44	12.8%	58	12.2%
Real Estate-Multifamily & Land	251	13.1%	224	13.9%	271	14.0%
Installment Loans to Individuals	46	2.1%	40	1.9%	36	1.9%
Lease financing	80	2.6%	88	2.9%	69	2.6%
Other	1,086		1,037		1,117	
Unallocated	233		226		526	
Total	\$ 3,362	100%	\$ 3,175	100%	\$ 3,736	100%

The allocation of the Allowance for Loan Losses to the other category is due to management's assessment of various qualitative factors. Qualitative factors included the size of individual credits, concentrations and general economic conditions. Management also considers these qualitative factors in their evaluation of the adequacy of the allowance for loan losses. An unallocated allowance can arise from fluctuations in the amount of classified and nonperforming loans ("credit grades") between periods.

#### Deposits

At September 30, 2007, the Bank had a deposit mix of 72% in time deposits, 18% in money market and savings accounts, and 10% 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, and 10% in checking accounts.

At September 30, 2007, the State of California had \$33,000,000 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 September 30, 2007, the Bank had \$30,524,000 in brokered time deposits, which included \$2,509,000 in 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 a carrying value of unpledged investment securities, totaled \$11,840,000 at September 30, 2007 and constituted 4% 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, the Bank maintains lines of credit with the Federal Home Loan Bank and its correspondent banks. The total of these lines of credit were \$118,219,000 at September 30, 2007, of which \$48,970,000 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 September 30, 2007, \$29,370,000 was due within one year and \$13,000,000 had maturities greater than a year.

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total risk-based capital ratio of 8.0% and

Tier 1 risk-based 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 16.2% and 15.0% at September 30, 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 September 30, 2007, the Bank's leverage ratio was 13.5%. Capital levels for the Bank remain above established regulatory capital requirements.

The Bank initiated a stock repurchase program under which the Board of Directors authorized the repurchase of up to 100,000 shares of common stock. The repurchase price will be at market order with a limit price of \$10.00 per share. The program will expire on September 14, 2008. No shares had been purchased under the program as of September 30, 2007.

### **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 September 30, 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 September 30, 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 \$(456,000) or (4.2)% and \$190,000 or 1.7%, 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 Form10 and Form 10-K.

### **Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3 Defaults Upon Senior Securities**

None.

### **Item 4 Submission of Matters to a Vote of Security Holders**

None.

### **Item 5 Other Information**

None.

### **Item 6 Exhibits**

The exhibits filed as part of this report are listed on the Exhibit Index filed as part of this report.

## SIGNATURES

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

Summit State Bank

(registrant)

\_\_\_\_\_ 11/06/07 \_\_\_\_\_

Date

*/s/ John C. Lewis*

John C. Lewis, Chief Executive Officer

\_\_\_\_\_ 11/06/07 \_\_\_\_\_

Date

*/s/ Dennis E. Kelley*

Dennis E. Kelley, Senior Vice President and  
Chief Financial Officer

## EXHIBIT INDEX

Exhibit Number	Description
10.01	Amendment to the lease of the Montgomery village branch office dated August 3, 2007
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 10.1

AMENDMENT TO LEASE

THIS LEASE is made on the 3<sup>rd</sup> day of August 2007, by MONTGOMERY VILLAGE LIMITED PARTNERSHIP, herein called "Owner" or "Landlord" and SUMMIT STATE BANK, A State of California Chartered Commercial Bank, herein called "Tenant"

WITNESSETH:

RECITALS:

- A. The parties hereto are parties to a Lease dated May 28, 2002 and a Lease Extension Agreement dated May 10, 2004 (which Lease Extension Agreement forms a part of this Lease) which Lease covers certain premises in the Montgomery Village Shopping Center in the City of Santa Rosa, County of Sonoma, State of California, more particularly described in this Lease.
- B. The first three (3) year option period provided by the Rider to Section 1.4 of this Lease expires on October 31, 2007. Pursuant to Rider to Section 1.4 of this Lease, Tenant has one (1), final option to extend the term of this Lease for a period of three (3) years (hereinafter "second option"), which second option Tenant timely exercised under letter to Owner dated May 10, 2007. Further, pursuant to Rider to Section 1.4 the Minimum Rent to be paid by Tenant during the second option period is to be determined by negotiations between the parties. The parties have negotiated and agreed upon the Minimum Rent to be paid by Tenant during the second option period and the parties acknowledge and agree that the second option period shall be for a period of five (5) years rather than the three (3) years provided by Rider to Section 1.4.
- C. The parties desire to amend and/or modify this Lease in order to (i) acknowledge the timely exercise by Tenant of the second option period, and confirm that the second option period is for a period of five (5) years rather than three (3) years, (ii) confirm and set forth the Minimum Annual Rent to be paid by Tenant to Owner during said five (5) years and (iii) provide Tenant another option (hereinafter "third option") to extend the term of this Lease for a period of five (5) years..

NOW, THEREFORE, it is mutually agreed:

1. Tenant's second option is validly exercised for a period of five (5) years. Said second option period commences on November 1, 2007 and expires on October 31, 2012.

The parties agree that Tenant's Minimum Annual Rent pursuant to Section 2.1 of this Lease shall, during the second option period, be \$60,000.00 per annum (\$5,000.00 per month). Said Minimum Annual Rent shall continue to be subject to the annual adjustments each year provided by Section 2.6 of this Lease. However, the Minimum Annual Rent set forth herein to be paid by Tenant during the second option period shall be the Minimum Annual Rent that is to be adjusted on each anniversary date (each November 1<sup>st</sup>) and shall be adjusted over the Consumer Price Index published closest to but not after the month of August 2007.

2. Tenant shall have a third option to extend the term of his Lease for a period of five (5) years on all the same terms and conditions contained in this Lease except Minimum Annual Rent pursuant to Section 2.1 of this Lease which shall for the third option period be determined by negotiations between the parties.

In order for the "third option" period to be validly exercised, Owner must receive written notice from Tenant of Tenant's exercise of the third option no sooner than 360 days and no later than ~~180~~ days prior to October 31, 2012. If Owner and Tenant do not agree upon the Minimum Annual Rent to be paid by Tenant during the third option within thirty (30) days of the date that Tenant exercises the third option period, then the exercise of the third option is null and void and the Lease shall expire on October 31, 2012.

INITIAL  

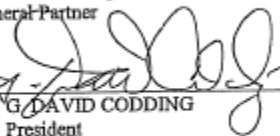

Provided that, if Tenant is in breach of or in default of any term, covenant or condition of this Lease on the date of exercising the third option, then the exercise of the third option shall be totally ineffective, or if Tenant is in breach of or in default of any term, covenant or condition of this Lease on the date the third option period is to commence, the third option period shall not commence and this Lease shall expire on October 31, 2012; unless terminated sooner.

If the third option is validly exercised the third option period shall commence on November 1, 2012 and shall expire on October 31, 2017.

Tenant has no other right to extend the term of this Lease beyond the third option period provided for herein.

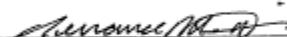
3. Except as herein amended the lease shall continue in full force and effect.


MONTGOMERY VILLAGE  
LIMITED PARTNERSHIP  
By: LAKESIDE LEASING, INC.  
A California Corporation  
General Partner

By:   
G. DAVID CODDING  
President

(Owner)

SUMMIT STATE BANK  
A State of California Chartered Commercial  
Bank

By:   
Print Name: TERRANCE M. DAVIS  
Title: PRESIDENT

By:   
Print Name: JOHN C. LEWIS  
Title: CEO & Chairman

(Tenant)

**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 September 30, 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.

11/06/07 /s/ *John C. Lewis*

Date	John C. Lewis Chief Executive Officer Summit State Bank
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**Exhibit 31.02**

**Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002**

I, Dennis E. Kelley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 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.

11/06/07 /s/ Dennis E. Kelley

Date	Dennis E. Kelley Senior Vice President and Chief Financial Officer Summit State Bank
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**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 September 30, 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.

\_\_\_\_\_11/06/07\_\_\_\_\_ /s/ *John C. Lewis*

John C. Lewis, Chief Executive Officer

\_\_\_\_\_11/06/07\_\_\_\_\_ /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.