

AMERICAN RIVER BANKSHARES  
Form 10-Q  
August 13, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-31525

**AMERICAN RIVER BANKSHARES**

(Exact name of registrant as specified in its charter)

**California**

**68-0352144**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**3100 Zinfandel Drive, Suite 450, Rancho Cordova, California**

**95670**

(Address of principal executive offices)

(Zip Code)

**(916) 851-0123**

(Registrant's telephone number, including area code)

Not Applicable

(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 required 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or

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for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

No par value Common Stock 5,797,533 shares outstanding at August 12, 2009.

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AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED JUNE 30, 2009

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(dollars in thousands)

June 30, 2009

December 31, 2008

ASSETS

|   |    |         |    |         |
|---|----|---------|----|---------|
| Cash and due from banks   | \$ | 25,074  | \$ | 15,170  |
| Interest-bearing deposits in banks  |    | 891     |    | 4,248   |
| Investment securities:  |    |         |    |         |
| Available-for-sale (amortized cost: 2009--\$64,674; 2008--\$62,661)   |    | 64,951  |    | 63,334  |
| Held-to-maturity (fair value: 2009--\$18,600; 2008--\$24,889)   |    | 17,933  |    | 24,365  |
| Loans and leases, less allowance for loan and lease losses of \$7,758 at June 30, 2009 and \$5,918 at December 31, 2008 |    | 398,191 |    | 412,356 |
| Premises and equipment, net   |    | 2,164   |    | 2,115   |
| Federal Home Loan Bank stock  |    | 3,922   |    | 3,922   |
| Goodwill and other intangible assets  |    | 17,096  |    | 17,228  |
| Other real estate owned   |    | 3,347   |    | 2,158   |
| Accrued interest receivable and other assets  |    | 18,241  |    | 18,261  |
|   | \$ | 551,810 | \$ | 563,157 |

LIABILITIES AND SHAREHOLDERS EQUITY

|  |    |         |    |         |
|--|----|---------|----|---------|
| Deposits:                                      |    |         |    |         |
| Noninterest bearing                            | \$ | 115,036 | \$ | 119,143 |
| Interest-bearing                               |    | 334,573 |    | 317,918 |
| Total deposits                                 |    | 449,609 |    | 437,061 |
| Short-term borrowings                          |    | 14,500  |    | 43,231  |
| Long-term borrowings                           |    | 21,500  |    | 14,000  |
| Accrued interest payable and other liabilities |    | 3,925   |    | 5,418   |
| Total liabilities                              |    | 489,534 |    | 499,710 |

Commitments and contingencies

Shareholders equity:

|   |  |        |  |        |
|---|--|--------|--|--------|
| Common stock no par value; 20,000,000 shares authorized; issued and outstanding 5,797,533 shares at June 30, 2009 and 5,792,283 shares at December 31, 2008 |  | 47,575 |  | 47,433 |
| Retained earnings   |  | 14,538 |  | 15,617 |
| Accumulated other comprehensive income, net of taxes  |  | 163    |  | 397    |

|                           |    |         |    |         |
|---------------------------|----|---------|----|---------|
| Total shareholders equity |    | 62,276  |    | 63,447  |
|                           | \$ | 551,810 | \$ | 563,157 |

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See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

(dollars in thousands, except per share data)  
For the periods ended June 30,

|  | Three months    |                 | Six months    |                 |
|--|-----------------|-----------------|---------------|-----------------|
|  | 2009            | 2008            | 2009          | 2008            |
| <b>Interest income:</b>  |                 |                 |               |                 |
| Interest and fees on loans   | \$ 6,364        | \$ 6,945        | \$ 13,082     | \$ 14,189       |
| Interest on Federal funds sold                                       |                 | 6               |               | 8               |
| Interest on deposits in banks  | 20              | 59              | 53            | 124             |
| <b>Interest and dividends on investment securities:</b>              |                 |                 |               |                 |
| Taxable  | 676             | 962             | 1,411         | 1,962           |
| Exempt from Federal income taxes                                     | 256             | 269             | 521           | 533             |
| Dividends  | 5               | 11              | 5             | 14              |
| <b>Total interest income</b>   | <b>7,321</b>    | <b>8,252</b>    | <b>15,072</b> | <b>16,830</b>   |
| <b>Interest expense:</b>   |                 |                 |               |                 |
| Interest on deposits   | 998             | 1,464           | 2,079         | 3,207           |
| Interest on borrowings   | 305             | 393             | 636           | 886             |
| <b>Total interest expense</b>  | <b>1,303</b>    | <b>1,857</b>    | <b>2,715</b>  | <b>4,093</b>    |
| <b>Net interest income</b>   | <b>6,018</b>    | <b>6,395</b>    | <b>12,357</b> | <b>12,737</b>   |
| <b>Provision for loan and lease losses</b>                           | <b>3,800</b>    | <b>190</b>      | <b>5,029</b>  | <b>527</b>      |
| <b>Net interest income after provision for loan and lease losses</b> | <b>2,218</b>    | <b>6,205</b>    | <b>7,328</b>  | <b>12,210</b>   |
| <b>Noninterest income:</b>   |                 |                 |               |                 |
| Service charges on deposit accounts                                  | 251             | 169             | 493           | 354             |
| Gain on sale of securities   | 160             | 33              | 160           | 33              |
| Other noninterest income   | 238             | 437             | 506           | 837             |
| <b>Total noninterest expense</b>                                     | <b>649</b>      | <b>639</b>      | <b>1,159</b>  | <b>1,224</b>    |
| <b>Noninterest expense:</b>  |                 |                 |               |                 |
| Salaries and employee benefits                                       | 1,826           | 2,073           | 3,699         | 4,094           |
| Occupancy  | 344             | 366             | 702           | 730             |
| Furniture and equipment  | 184             | 199             | 375           | 390             |
| Federal Deposit Insurance Corporation assessments                    | 335             | 13              | 409           | 26              |
| Other expense  | 1,550           | 991             | 2,655         | 2,031           |
| <b>Total noninterest expense</b>                                     | <b>4,239</b>    | <b>3,642</b>    | <b>7,840</b>  | <b>7,271</b>    |
| <b>(Loss) income before provision for income taxes</b>               | <b>(1,372)</b>  | <b>3,202</b>    | <b>647</b>    | <b>6,163</b>    |
| <b>(Benefit from) provision for income taxes</b>                     | <b>(668)</b>    | <b>1,221</b>    | <b>68</b>     | <b>2,349</b>    |
| <b>Net (loss) income</b>   | <b>\$ (704)</b> | <b>\$ 1,981</b> | <b>\$ 579</b> | <b>\$ 3,814</b> |

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|                                   |    |        |    |      |    |      |    |      |
|-----------------------------------|----|--------|----|------|----|------|----|------|
| Basic (loss) earnings per share   | \$ | (0.12) | \$ | 0.34 | \$ | 0.10 | \$ | 0.65 |
| Diluted (loss) earnings per share | \$ | (0.12) | \$ | 0.34 | \$ | 0.10 | \$ | 0.65 |
| Cash dividends per share          | \$ | 0.14   | \$ | 0.14 | \$ | 0.29 | \$ | 0.29 |

See notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

| (dollars in thousands)   | Common Stock |           | Retained  | Accumulated<br>Other<br>Comprehensive | Total                  | Total                   |
|--|--------------|-----------|-----------|---------------------------------------|------------------------|-------------------------|
|  | Shares       | Amount    | Earnings  | Income                                | Shareholders<br>Equity | Comprehensive<br>Income |
| Balance, January 1, 2008   | 5,590,277    | \$ 45,668 | \$ 14,204 | \$ 101                                | \$ 59,973              |                         |
| Comprehensive income:  |              |           |           |                                       |                        |                         |
| Net income   |              |           | 7,571     |                                       | 7,571                  | \$ 7,571                |
| Other comprehensive income, net of tax:  |              |           |           |                                       |                        |                         |
| Net change in unrealized gains on<br>available-for-sale investment securities          |              |           |           | 296                                   | 296                    | 296                     |
| Total comprehensive income   |              |           |           |                                       |                        | \$ 7,867                |
| Cash dividends (\$0.57 per share)  |              |           |           |                                       |                        |                         |
|  |              |           | (3,317)   |                                       | (3,317)                |                         |
| Fractional shares redeemed for stock<br>dividend                                       |              | (10)      |           |                                       | (10)                   |                         |
| 5% stock dividend  | 275,048      | 2,841     | (2,841)   |                                       |                        |                         |
| Stock options exercised and related tax<br>benefit                                     | 37,258       | 354       |           |                                       | 354                    |                         |
| Stock option compensation expense  |              | 290       |           |                                       | 290                    |                         |
| Retirement of common stock   | (110,300)    | (1,710)   |           |                                       | (1,710)                |                         |
| Balance, December 31, 2008   | 5,792,283    | 47,433    | 15,617    | 397                                   | 63,447                 |                         |
| Comprehensive income:  |              |           |           |                                       |                        |                         |
| Net income   |              |           | 579       |                                       | 579                    | \$ 579                  |
| Other comprehensive (loss) income, net of<br>tax:                                      |              |           |           |                                       |                        |                         |
| Net change in unrealized gains (losses) on<br>available-for-sale investment securities |              |           |           | (234)                                 | (234)                  | (234)                   |
| Total comprehensive income   |              |           |           |                                       |                        | \$ 345                  |
| Cash dividends (\$0.29 per share)  |              |           |           |                                       |                        |                         |
|  |              |           | (1,658)   |                                       | (1,658)                |                         |
| Stock options exercised and related tax<br>benefit                                     | 5,250        | 34        |           |                                       | 34                     |                         |
| Stock option compensation expense  |              | 108       |           |                                       | 108                    |                         |
| Balance, June 30, 2009   | 5,797,533    | \$ 47,575 | \$ 14,538 | \$ 163                                | \$ 62,276              |                         |

See Notes to Unaudited Consolidated Financial Statements



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AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

(dollars in thousands)

For the six months ended June 30,

|   | 2009     | 2008     |
|---|----------|----------|
| Cash flows from operating activities:   |          |          |
| Net income  | \$ 579   | \$ 3,814 |
| Adjustments to reconcile net income to net cash provided by operating activities:       |          |          |
| Provision for loan and lease losses   | 5,029    | 527      |
| Increase (decrease) in deferred loan origination fees, net                              | 24       | (48)     |
| Depreciation and amortization   | 418      | 400      |
| Gain on sale of securities  | (160)    | (33)     |
| Amortization of investment security premiums and discounts, net                         | 114      | 65       |
| Decrease in provision for accounts receivable servicing receivable allowance for losses | (36)     |          |
| Increase in cash surrender value of life insurance policies                             | (116)    | (202)    |
| Stock option compensation expense   | 108      | 142      |
| Tax benefit from exercise of stock options  | (12)     | (85)     |
| Loss on sale/write-down of other real estate owned                                      | 301      |          |
| (Increase) decrease in accrued interest receivable and other assets                     | (847)    | 1,546    |
| Decrease in accrued interest payable and other liabilities                              | (1,493)  | (176)    |
| <br>  |          |          |
| Net cash provided by operating activities   | 3,909    | 5,950    |
| Cash flows from investing activities:   |          |          |
| Proceeds from the sale of available-for-sale investment securities                      | 4,836    | 7,063    |
| Proceeds from matured and called available-for-sale investment securities               | 575      | 7,590    |
| Purchases of available-for-sale investment securities                                   | (13,351) | (19,343) |
| Proceeds from principal repayments for available-for-sale investment securities         | 5,942    | 4,103    |
| Proceeds from principal repayments for held-to-maturity investment securities           | 6,463    | 5,886    |
| Net decrease in interest-bearing deposits in banks                                      | 3,357    | 10       |
| Net decrease (increase) in loans  | 5,675    | (7,934)  |
| Proceeds from sale of other real estate   | 1,947    | 61       |
| Net decrease in accounts receivable servicing receivables                               | 1,192    | 294      |
| Purchases of equipment  | (334)    | (333)    |
| Net increase in FHLB stock  |          | (272)    |
| <br>  |          |          |
| Net cash provided by (used in) investing activities                                     | 16,302   | (2,875)  |

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AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
(Unaudited)

(dollars in thousands)

For the six months ended June 30,

|  | 2009        | 2008       |
|--|-------------|------------|
| Cash flows from financing activities:                                    |             |            |
| Net increase (decrease) in demand, interest-bearing and savings deposits | \$ 10,774   | \$ (3,258) |
| Net increase in time deposits  | 1,774       | 6,813      |
| Net decrease in short-term borrowings                                    | (28,731)    | (15,300)   |
| Net increase in long-term borrowings                                     | 7,500       | 17,500     |
| Payment of cash dividends  | (1,658)     | (1,668)    |
| Cash paid to repurchase common stock                                     |             | (1,384)    |
| Exercise of stock options  | 22          | 234        |
| Tax benefit from exercise of stock options                               | 12          | 85         |
| <br>   |             |            |
| Net cash (used in) provided by financing activities                      | \$ (10,307) | \$ 3,022   |
| <br>   |             |            |
| Increase in cash and cash equivalents                                    | 9,904       | 6,097      |
| Cash and cash equivalents at beginning of year                           | 15,170      | 17,945     |
| <br>   |             |            |
| Cash and cash equivalents at end of period                               | \$ 25,074   | \$ 24,042  |

See Notes to Unaudited Consolidated Financial Statements

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## AMERICAN RIVER BANKSHARES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS June 30, 2009

### 1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position of American River Bankshares (the Company) at June 30, 2009 and December 31, 2008, and the results of its operations for the three-month and six-month periods ended June 30, 2009 and 2008 and its cash flows for the six-month periods ended June 30, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America.

Certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2008 annual report on Form 10-K. The results of operations for the three-month and six-month periods ended June 30, 2009 may not necessarily be indicative of the operating results for the full year.

In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan and lease losses, the provision for taxes and the estimated fair value of investment securities and other real estate owned.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of American River Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate all of the branches and report them as a single operating segment. No client accounts for more than ten percent (10%) of revenues for the Company or American River Bank.

### 2. STOCK-BASED COMPENSATION

#### *Stock Option Plan*

In 2000, the Board of Directors adopted a stock option plan under which options may be granted to employees and directors under incentive and nonstatutory agreements. The plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted. The options under this plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is generally five years; however, the vesting period can be modified at the discretion of the Company's Board of Directors. Outstanding options under the plan are exercisable until their expiration. New shares are issued upon exercise.

#### *Stock Option Compensation*

There were no stock options granted during the three-month period ended June 30, 2009. The Company granted 1,575 options to purchase common stock during the three months ended June 30, 2008. The weighted average grant date fair value of options granted for the three month period ended June 30, 2008 was \$1.98. For the three-month periods ended June 30, 2009 and 2008, the compensation cost recognized for stock option compensation was \$53,000 and \$74,000, respectively. For the six-month periods ended June 30, 2009 and 2008, the compensation cost recognized for stock option compensation was \$108,000 and \$142,000, respectively. The recognized tax benefit for stock option compensation expense was \$14,000 and \$9,000, for the three-month periods ended June 30, 2009 and 2008, respectively. The recognized tax benefit for stock option compensation expense was \$27,000 and \$17,000, for the six-month periods ended June 30, 2009 and 2008, respectively.

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At June 30, 2009, the total compensation cost related to nonvested awards not yet recorded is expected to be \$488,000. This amount will be recognized over the next five years and the weighted average period of recognizing these costs is expected to be 2.8 years.

### *Stock Option Activity*

A summary of option activity under the stock option plan as of June 30, 2009 and changes during the period then ended is presented below:

| Options                        | Shares   | Weighted<br>Average Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Term | Aggregate<br>Intrinsic Value<br>(\$000) |
|--------------------------------|----------|---------------------------------------|--|---|
| Outstanding at January 1, 2009 | 338,295  | \$ 18.67                              | 5.7 years  | \$ 31                                   |
| Granted                        | 62,003   | \$ 8.50                               | 9.8 years  |   |
| Exercised                      | (5,250)  | \$ 4.10                               |  |   |
| Cancelled                      | (12,854) | \$ 20.45                              |  |   |
| Outstanding at June 30, 2009   | 382,194  | \$ 17.19                              | 7.0 years  | \$ 131                                  |
| Exercisable at June 30, 2009   | 194,399  | \$ 18.23                              | 5.8 years  | \$                                      |

The intrinsic value was derived from the market price of the Company's common stock of \$10.61 as of June 30, 2009.

### 3. COMMITMENTS AND CONTINGENCIES

In the normal course of business there are outstanding various commitments to extend credit which are not reflected in the financial statements, including loan commitments of approximately \$67,713,000 and standby letters of credit of approximately \$4,427,000 at June 30, 2009. Such loans relate primarily to real estate construction loans and revolving lines of credit and other commercial loans. However, all such commitments will not necessarily culminate in actual extensions of credit by the Company during 2009 as some of these are expected to expire without being fully drawn upon.

Standby letters of credit are commitments issued to guarantee the performance or financial obligation of a client to a third party. These guarantees are issued primarily relating to purchases of inventory or as security for real estate rents by commercial clients and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to clients and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The majority of all such commitments are collateralized. 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 June 30, 2009 or June 30, 2008.

### 4. EARNINGS (LOSS) PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (5,797,533 and 5,796,025 shares for the three-month and six-month periods ended June 30, 2009, and 5,811,578 and 5,825,367 shares for the three-month and six-month periods ended June 30, 2008). Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised. Diluted earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period plus the dilutive effect of options. When a loss occurs there is no effect on the calculation of diluted loss per share for common stock equivalents because the conversion is anti-dilutive, as such there are no diluted shares reported for the three months ended June 30, 2009. There were 46,044 diluted shares for the six-month period ended June 30, 2009 and 14,725 and 23,668 shares for the three-month and six-month periods ended June 30, 2008). Earnings per share is retroactively adjusted for stock dividends and stock splits for all periods presented.

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### 5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income (loss) for all periods presented. Comprehensive income (loss) is comprised of net income (loss) plus other comprehensive income (loss). Other comprehensive loss, net of taxes, was comprised of the unrealized losses on available-for-sale investment securities of \$(173,000) and \$(234,000), respectively, for the three-month and six-month periods ended June 30, 2009 and \$(641,000) and \$(137,000), respectively, for the three-month and six-month periods ended June 30, 2008. Comprehensive (loss) income was \$(877,000) and \$345,000, respectively, for the three-month and six-month periods ended June 30, 2009 and \$1,340,000 and \$3,677,000, respectively, for the three-month and six-month periods ended June 30, 2008. Reclassification adjustments resulting from realized gains or loss on sale of investment securities were \$160,000 for both the three and six month periods ending June 30, 2009 and \$33,000 for both the three and six month periods ending June 30, 2008.

### 6. BORROWING ARRANGEMENTS

The Company has a total of \$52,000,000 in unsecured short-term borrowing arrangements with four of its correspondent banks. There were no advances under the borrowing arrangements as of June 30, 2009 or December 31, 2008.

The Company has a line of credit available with the Federal Home Loan Bank (the FHLB) which is secured by pledged mortgage loans and investment securities. Borrowings may include overnight advances as well as loans with terms of up to thirty years. Advances (both short and long-term) totaling \$36,000,000 were outstanding from the FHLB at June 30, 2009, bearing interest rates ranging from 1.60% to 3.78% and maturing between September 10, 2009 and January 13, 2014. Advances totaling \$57,231,000 were outstanding from the FHLB at December 31, 2008, bearing interest rates ranging from 0.05% to 3.78% and maturing between January 2, 2009 and August 22, 2011. Remaining amounts available under the borrowing arrangement with the FHLB at June 30, 2009 and December 31, 2008 totaled \$67,270,000 and \$60,012,000, respectively. In addition, during 2008 the Company entered into a secured borrowing agreement with the Federal Reserve Bank of San Francisco (the FRB). The borrowing can be secured by pledging selected loans and investment securities. Borrowings generally are short-term including overnight advances as well as loans with terms up to ninety days. Collateral value at June 30, 2009 and December 31, 2008 was \$10,312,000 and \$935,000, respectively. There were no advances outstanding as of June 30, 2009 and December 31, 2008.

The Company's banking subsidiary, American River Bank (the Bank), is eligible to issue certain debt that is backed by the full faith and credit of the United States, up to a limit of \$10,260,000, under the FDIC's Temporary Liquidity Guarantee Program. Any senior unsecured debt with a stated maturity of more than thirty days issued by the Bank up to its debt guarantee limit falls under this program. The Bank will be charged an annualized assessment from the FDIC, ranging from 50 to 100 basis points, based on the term and amount of the debt outstanding under the program. At June 30, 2009 and December 31, 2008, the Company had no borrowings under this debt guarantee program.

### 7. INCOME TAXES

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated (benefit from) provision for income taxes.

The Company accounts for income taxes using the balance sheet method, under which deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

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The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, if applicable, as a component of interest expense in the consolidated statements of operations. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the three and six-month periods ended June 30, 2009.

### 8. FAIR VALUE MEASUREMENT

The carrying amounts and estimated fair values of the Company's financial instruments are as follows (dollars in thousands):

|   | June 30, 2009      |                            | December 31, 2008  |                            |
|---|--------------------|----------------------------|--------------------|----------------------------|
|   | Carrying<br>Amount | Estimated<br>Fair<br>Value | Carrying<br>Amount | Estimated<br>Fair<br>Value |
| <b>Financial assets:</b>                        |                    |                            |                    |                            |
| Cash and cash equivalents                       | \$ 25,074          | \$ 25,074                  | \$ 15,170          | \$ 15,170                  |
| Interest-bearing deposits in banks              | 891                | 891                        | 4,248              | 4,249                      |
| Investment securities                           | 82,884             | 83,551                     | 87,699             | 88,223                     |
| Loans and leases, net                           | 398,191            | 392,165                    | 412,356            | 407,725                    |
| FHLB stock                                      | 3,922              | 3,922                      | 3,922              | 3,922                      |
| Accounts receivable servicing receivables       | 80                 | 80                         | 1,236              | 1,236                      |
| Accrued interest receivable                     | 2,026              | 2,026                      | 2,265              | 2,265                      |
| Cash surrender value of life insurance policies | 10,612             | 10,612                     | 10,496             | 10,496                     |
| <b>Financial liabilities:</b>                   |                    |                            |                    |                            |
| Deposits  | \$ 449,609         | \$ 450,417                 | \$ 437,061         | \$ 438,160                 |
| Short-term borrowings                           | 14,500             | 14,500                     | 43,231             | 42,231                     |
| Long-term borrowings                            | 21,500             | 22,239                     | 14,000             | 14,599                     |
| Accrued interest payable                        | 393                | 393                        | 462                | 462                        |

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

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The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at June 30, 2009 and December 31, 2008:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

Interest-bearing deposits in banks: The fair values of interest-bearing deposits in banks are estimated by discounting their future cash flows using rates at each reporting date for instruments with similar remaining maturities offered by comparable financial institutions.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

Loans and leases: For variable-rate loans and leases that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans and leases are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans and leases with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

FHLB stock: The carrying amount of FHLB stock approximates its fair value. This investment is carried at cost and is redeemable at par with certain restrictions.

Accounts receivable servicing receivables: The carrying amount of accounts receivable servicing receivables approximates their fair value because of the relatively short period of time between the origination of the receivables and their expected collection.

Cash surrender value of life insurance policies: The fair value of life insurance policies are based on cash surrender values at each reporting date as provided by insurers.

Deposits: The fair values for non-maturing deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Short-term and long-term borrowings: The fair value of short-term borrowings is estimated to be the carrying amount. The fair value of long-term borrowings is estimated using a discounted cash flow analysis using interest rates currently available for similar debt instruments.

Commitments to extend credit: The fair value of commitments is based on fees currently charged to enter into similar agreements, net of origination fees. These fees were not material at June 30, 2009 and December 31, 2008.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize information other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement, in its entirety, falls has been determined based on the lowest level input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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(dollars in thousands)

| Description  | Fair Value Measurements<br>at June 30, 2009 Using |   |  |  |
|--|---|---|--|--|
|  | Fair Value<br>June 30, 2009                       | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets and liabilities measured on a recurring basis:    |   |   |  |  |
| Available-for-sale securities                            | \$ 64,951   | \$ 20   | \$ 60,863                                  | \$ 4,068   |
| <b>Total</b>   | <b>\$ 64,951</b>                                  | <b>\$ 20</b>  | <b>\$ 60,863</b>                           | <b>\$ 4,068</b>                                    |
| Assets and liabilities measured on a nonrecurring basis: |   |   |  |  |
| Impaired loans   | \$ 7,188  |   | \$ 2,947                                   | \$ 4,241   |
| Other real estate owned                                  | 3,347   |   | 3,347                                      |  |
| <b>Total</b>   | <b>\$ 10,535</b>                                  | <b>\$</b>   | <b>\$ 6,294</b>                            | <b>\$ 4,241</b>                                    |

Changes in balances of recurring items valued using significant unobservable inputs (level 3) for available-for-sale securities and impaired loans are as follows:

(dollars in thousands)

|                | Balance as of<br>January 1, 2009 | Transfers In<br>(Out) | Unrealized<br>Gains (Losses) | Realized Gains<br>(Losses) | Balance as of<br>June 30, 2009 |
|----------------|----------------------------------|-----------------------|------------------------------|----------------------------|--------------------------------|
| Securities     | \$ 2,049                         | \$ 2,526              | \$ (507)                     | \$                         | \$ 4,068                       |
| Impaired loans |                                  | 4,241                 |                              |                            | 4,241                          |
| <b>Total</b>   | <b>\$ 2,049</b>                  | <b>\$ 6,767</b>       | <b>\$ (507)</b>              | <b>\$</b>                  | <b>\$ 8,309</b>                |

There were no changes in the valuation techniques used during the three months or six months ended June 30, 2009. The following methods were used to estimate the fair value of each class of financial instrument above:

**Available-for-sale securities** - Fair values for investment securities are based on evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Evaluated pricing applications apply available information, as applicable, through processes such as benchmark curves, benchmarking to like securities, sector groupings, and matrix pricing.

**Impaired Loans** - The fair value of impaired loans is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model.

**Other real estate owned** - Other real estate owned represents real estate which the Company has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the fair value of the real estate less costs to sell, which becomes the property's new basis.

## 9. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On April 1, 2009, the Financial Accounting Standards Board (the "FASB") issued FASB Staff Position No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (FSP 141(R)-1). FSP 141(R)-1 provides additional guidance regarding the recognition, measurement and disclosure of assets and liabilities arising from contingencies in a business combination. FSP 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after



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the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact on the Company of adopting FSP 141(R)-1 will depend on the timing of future acquisitions, as well as the nature and existence of contingencies associated with such acquisitions.

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On May 28, 2009, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 165, *Subsequent Events* ( SFAS 165 ). Under SFAS 165, companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued, or available to be issued in the case of non-public entities. SFAS 165 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. SFAS 165 also requires entities to disclose the date through which subsequent events have been evaluated. SFAS 165 was effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the provisions of SFAS 165 for the quarter ended June 30, 2009, as required, and adoption did not have a material impact on the Company's financial statements taken as a whole.

On June 29, 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162 ( SFAS 168 ). SFAS 168 establishes the FASB Accounting Standards Codification<sup>TM</sup> as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. SFAS 168 will be effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. On the effective date, all non-SEC accounting and reporting standards will be superceded. The Company will adopt SFAS 168 for the quarterly period ending September 30, 2009, as required, and adoption is not expected to have a material impact on the Company's financial statements taken as a whole.

### 10. SUBSEQUENT EVENTS

Effective this quarter, the Company implemented Statement of Financial Accounting Standards No. 165, *Subsequent Events*, or SFAS 165. This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of SFAS 165 did not impact the Company's financial position or results of operations. The Company evaluated all events or transactions that occurred from June 30, 2009 to August 13, 2009 (the filing date), the date the Company issued these financial statements.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion and analysis of the significant changes in American River Bankshares (the Company) balance sheet accounts between December 31, 2008 and June 30, 2009 and its income and expense accounts for the three-month and six-month periods ended June 30, 2009 and 2008. The discussion is designed to provide a better understanding of significant trends related to the Company's financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This discussion and supporting tables and the consolidated financial statements and related notes appearing elsewhere in this report are unaudited. Interest income and net interest income are presented on a fully taxable equivalent basis (FTE) within management's discussion and analysis.

Certain matters discussed or incorporated by reference in this Quarterly Report on Form 10-Q including, but not limited to, matters described in Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended, and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as believe, expect, anticipate, intend, may, will, should, would, and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (1) the duration of financial and economic volatility and actions taken by the United States Congress and governmental agencies, including the United States Department of the Treasury, to deal with challenges to the U.S. financial system; (2) variances in the actual versus projected growth in assets and return on assets; (3) loan and lease losses; (4) expenses; (5) changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits and other borrowed funds; (6) competition effects; (7) fee and other noninterest income earned; (8) general economic conditions nationally, regionally, and in the operating market areas of the Company and its subsidiaries; (9) changes in the regulatory environment including government intervention in the U.S. financial system; (10) changes in business conditions and inflation; (11) changes in securities markets, public debt markets, and other capital markets; (12) data processing and other operational systems failures or fraud; (13) a decline in real estate values in the Company's operating market areas; (14) the effects of uncontrollable events such as terrorism, the threat of terrorism or the impact of the current military conflicts in Afghanistan and Iraq and the conduct of the war on terrorism by the United States and its allies, worsening financial and economic conditions, natural disasters, and disruption of power supplies and communications; and (15) changes in accounting standards, tax laws or regulations and interpretations of such standards, laws or regulations, as well as other factors. The factors set forth under Item 1A - Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and other cautionary statements and information set forth in this Quarterly Report on Form 10-Q should be carefully considered and understood as being applicable to all related forward-looking statements contained in this Quarterly Report on Form 10-Q, when evaluating the business prospects of the Company and its subsidiaries.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. The 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 report, and in the case of any documents that may be incorporated by reference, as of the date of those documents. 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 report 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 our subsequent reports filed with the Securities and Exchange Commission (the SEC) on Forms 10-K, 10-Q and 8-K.

## Critical Accounting Policies

### *General*

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. We use historical loss data and the economic environment as factors, among others, in determining the inherent loss that may be present in our loan and lease portfolio. Actual losses could differ significantly from the factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

### *Allowance for Loan and Lease Losses*

The allowance for loan and lease losses is an estimate of the credit loss risk in our loan and lease portfolio. The allowance is based on two basic principles of accounting: (1) Statement of Financial Accounting Standards ( SFAS ) No. 5 Accounting for Contingencies, which requires that losses be accrued when it is probable that a loss has occurred at the balance sheet date and such loss can be reasonably estimated; and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan, which requires that losses be accrued on impaired loans based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance for loan and lease losses is determined based upon estimates that can and do change when the actual risk, loss events, or changes in other factors, occur. The analysis of the allowance uses an historical loss view as an indicator of future losses and as a result could differ from the loss incurred in the future. If the allowance for loan and lease losses falls below that deemed adequate (by reason of loan and lease growth, actual losses, the effect of changes in risk factors, or some combination of these), the Company has a strategy for supplementing the allowance for loan and lease losses, over the short-term. For further information regarding our allowance for loan and lease losses, see Allowance for Loan and Lease Losses Activity discussion later in this Item 2.

### *Stock-Based Compensation*

The Company recognizes compensation expense in an amount equal to the fair value of the share-based payments such as stock options granted to employees. The Company records compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that were outstanding on January 1, 2006 and for all awards granted after that date as they vest. The fair value of each option is estimated on the date of grant and amortized over the service period using an option pricing model. Critical assumptions that affect the estimated fair value of each option include expected stock price volatility, dividend yields, option life and the risk-free interest rate.

### *Goodwill*

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise or the assumption of net liabilities in an acquisition of branches constituting a business may give rise to goodwill. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed for impairment at a reporting unit level at least annually following the year of acquisition. The Company performed an evaluation of the goodwill, recorded as a result of the Bank of Amador acquisition, during the fourth quarter of 2008 and determined that there was no impairment. While the Company believes all assumptions utilized in its assessment of goodwill for impairment are reasonable and appropriate, changes in earnings, the effective tax rate, historical earnings multiples and the cost of capital could all cause different results for the calculation of the present value of future cash flows.

*Fair Value*

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements, which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS No. 157 establishes a hierarchical disclosure framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

**General Development of Business**

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 1995. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and regulations thereunder. Its principal office is located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, California 95670 and its telephone number is (916) 854-0123. The Company employed an equivalent of 117 full-time employees as of June 30, 2009.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, American River Bank (the Bank), and American River Financial, a California corporation which has been inactive since its incorporation in 2003.

American River Bank was incorporated and commenced business in Fair Oaks, California, in 1983 and thereafter moved its headquarters to Sacramento, California in 1985. The Bank operates: (1) five full service offices and one convenience office in Sacramento and Placer Counties including the head office located at 1545 River Park Drive, Suite 107, Sacramento, and branch offices located at 520 Capitol Mall, Suite 100, Sacramento, 9750 Business Park Drive, Sacramento, 10123 Fair Oaks Boulevard, Fair Oaks and 2240 Douglas Boulevard, Roseville, and the convenience office (limited service office) located at 3100 Zinfandel Drive, Suite 450, Rancho Cordova, and (2) three full service offices in Sonoma County located at 412 Center Street, Healdsburg, 8733 Lakewood Drive, Windsor, and 90 South E Street, Suite 110, Santa Rosa, operated under the name North Coast Bank, a division of American River Bank. North Coast Bank was acquired by the Company in 2000 as a separate bank subsidiary and was merged with and into American River Bank in 2003. The Company acquired Bank of Amador located in Jackson, California in 2004. Bank of Amador was merged with and into American River Bank and now operates three full service banking offices as Bank of Amador, a division of American River Bank within its primary service area of Amador County, in the cities of Jackson, Pioneer and Ione.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the FDIC) up to applicable legal limits. The Bank is also participating in the FDIC Transaction Account Guarantee Program (the TAGP). Under the TAGP, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account through December 31, 2009. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. FDIC insurance coverage and assessments are discussed under Item 1A--Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The Bank does not offer trust services or international banking services and does not plan to do so in the near future. The Bank's primary business is serving the commercial banking needs of small to mid-sized businesses within those counties listed above. The Bank accepts checking and savings deposits, offers money market deposit accounts and certificates of deposit, makes secured and unsecured commercial, secured real estate, and other installment and revolving credit loans and offers other customary banking services. The Bank also conducts lease financing for most types of business equipment, from computer software to heavy earth-moving equipment. The Bank owns 100% of two inactive companies, ARBCO and American River Mortgage. ARBCO was formed in 1984 to conduct real estate development and has been inactive since 1995. American River Mortgage has been inactive since its formation in 1994. During 2009, the Company conducted no significant activities other than holding the shares of its subsidiaries. However, it is authorized, with the prior approval of the Board of Governors of the Federal Reserve System (the Board of Governors), the Company's principal regulator, to engage in a variety of activities which are deemed closely related to the business of banking. The common stock of the Company is registered under the Securities Exchange Act of 1934, as amended, and is listed and traded on the Nasdaq Global Select Market under the symbol AMRB.

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### Overview

The Company recorded a net loss of \$704,000 for the quarter ended June 30, 2009, which was \$2,685,000 (135.5%) below the \$1,981,000 net income reported for the same period of 2008. Diluted earnings per share for the second quarter of 2009 were negative \$0.12 due to the loss, compared to diluted earnings per share of \$0.34 recorded in the second quarter of 2008. The return on average equity (ROAE) and the return on average assets (ROAA) for the second quarter of 2009 were (4.41%) and (0.50%), respectively, as compared to 13.11% and 1.38%, respectively, for the same period in 2008.

Net income for the six months ended June 30, 2009 and 2008 was \$579,000 and \$3,814,000, respectively, with diluted earnings per share of \$.10 and \$.65, respectively. For the first six months of 2009, ROAE was 1.83% and ROAA was 0.20% compared to 12.69% and 1.33%, respectively, for the same period in 2008.

Total assets of the Company decreased by \$11,347,000 (2.0%) from \$563,157,000 at December 31, 2008 to \$551,810,000 at June 30, 2009. Net loans totaled \$398,191,000 at June 30, 2009, down \$14,165,000 (3.4%) from \$412,356,000 at December 31, 2008. Deposit balances at June 30, 2009 totaled \$449,609,000, up \$12,548,000 (2.9%) from \$437,061,000 at December 31, 2008.

The Company ended the second quarter of 2009 with a Tier 1 capital ratio of 10.6% and a total risk-based capital ratio of 11.8% compared to 10.2% and 11.5%, respectively, at December 31, 2008.

Table One below provides a summary of the components of net (loss) income for the periods indicated (See the Results of Operations section that follows for an explanation of the fluctuations in the individual components):

**Table One: Components of Net Income**

| (dollars in thousands)   | For the three months<br>ended June 30, |                 | For the six months<br>ended June 30, |                 |
|--|--|-----------------|--------------------------------------|-----------------|
|  | 2009                                   | 2008            | 2009                                 | 2008            |
| Net interest income*   | \$ 6,102                               | \$ 6,483        | \$ 12,527                            | \$ 12,910       |
| Provision for loan and lease losses                                    | (3,800)                                | (190)           | (5,029)                              | (527)           |
| Noninterest income   | 649                                    | 639             | 1,159                                | 1,224           |
| Noninterest expense  | (4,239)                                | (3,642)         | (7,840)                              | (7,271)         |
| Benefit (provision) for income taxes                                   | 668                                    | (1,221)         | (68)                                 | (2,349)         |
| Tax equivalent adjustment  | (84)                                   | (88)            | (170)                                | (173)           |
| <b>Net (loss) income</b>   | <b>\$ (704)</b>                        | <b>\$ 1,981</b> | <b>\$ 579</b>                        | <b>\$ 3,814</b> |
| <br>   |  |                 |                                      |                 |
| Average total assets   | \$ 569,098                             | \$ 575,827      | \$ 573,322                           | \$ 574,879      |
| Net (loss) income (annualized) as a percentage of average total assets | (0.50)%                                | 1.38%           | 0.20%                                | 1.33%           |

\* Fully taxable equivalent basis (FTE)

## Results of Operations

### Net Interest Income and Net Interest Margin

Net interest income represents the excess of interest and fees earned on interest earning assets (loans and leases, securities, Federal funds sold and investments in time deposits) over the interest paid on interest-bearing deposits and borrowed funds. Net interest margin is net interest income expressed as a percentage of average earning assets. The Company's net interest margin was 4.87% for the three months ended June 30, 2009, 4.99% for the three months ended June 30, 2008, 4.98% for the six months ended June 30, 2009 and 4.96% for the six months ended June 30, 2008.

The fully taxable equivalent interest income component for the second quarter of 2009 decreased \$935,000 (11.2%) to \$7,405,000 compared to \$8,340,000 for the three months ended June 30, 2008. The decrease in the fully taxable equivalent interest income for the second quarter of 2009 compared to the same period in 2008 is broken down by rate (down \$733,000) and volume (down \$202,000). The rate decrease can be attributed to decreases implemented by the Company during 2007 and 2008 in response to the Federal Reserve Board (the FRB) decreases in the Federal funds and discount rates. Decreases by the FRB have resulted in ten rate drops totaling 500 basis points since September 2007. In addition, interest forgone on non-accrual loans in 2009 increased when compared to 2008. Interest income forgone on non-accrual loans was approximately \$378,000 during the second quarter of 2009 compared to \$260,000 for the same period in 2008. The overall decreasing interest rate environment and the negative effect of the higher non-accrual loans resulted in a 51 basis point decrease in the yield on average earning assets from 6.42% for 2008 to 5.91% for 2009. The volume decrease occurred due to a 3.8% decrease in average earning assets. The Company did experience a shift in the mix of earning assets from lower earning investments to higher earning loans. The change in mix of earning assets was primarily the result of the Company's decision to use the proceeds from principal reductions and maturing investment securities to provide funding for loan growth and offset a decrease in average deposits. This strategy has reduced the average balances on investment securities by 20.0% from \$111,309,000 during the second quarter of 2008 to \$89,061,000 during the second quarter of 2009, while average loan balances increased \$5,862,000 or 1.4% from \$405,097,000 during the second quarter of 2008 to \$410,959,000 during the second quarter of 2009. The increase in average loans is the result of the Company's continued concentrated focus on business lending.

Total fully taxable equivalent interest income for the six months ended June 30, 2009 decreased \$1,761,000 (10.4%) to \$15,242,000 compared to \$17,003,000 for the six months ended June 30, 2008. The breakdown of the fully taxable equivalent interest income for the six months ended June 30, 2009 over the same period in 2008 resulted from decreases in rate (down \$1,516,000) and a decrease in volume (down \$245,000). Average earning assets decreased \$15,612,000 (3.0%) during the first six months of 2009 as compared to the same period in 2008. Average loan balances increased \$10,046,000 (2.5%) during that same period and average investment securities balances decreased \$22,956,000 (20.3%).

Interest expense was \$554,000 (29.8%) lower in the second quarter of 2009 versus the prior year period. The average balances of interest-bearing liabilities were \$2,098,000 (0.6%) higher in the second quarter of 2009 versus the same quarter in 2008. The higher balances accounted for a \$93,000 increase in interest expense. Average time deposits were up \$16,973,000 (13.8%) as the Company was able to bring in some lower cost time deposits. The average cost of time deposits dropped 126 bp from 3.04% in the second quarter of 2008 to 1.78% in the second quarter of 2009. Decreased rates accounted for a \$647,000 reduction in interest expense for the three-month period ended June 30, 2009. The decrease in rates is a direct result of the lower overall rate environment. Rates paid on interest-bearing liabilities decreased 60 basis points from the second quarter of 2008 to the second quarter of 2009 from 1.96% to 1.36%. The average rate paid on borrowings dropped 70 basis points during that same time period from 2.96% to 2.26%.

Interest expense was \$1,378,000 (33.7%) lower in the six-month period ended June 30, 2009 versus the prior year period. The average balances on interest-bearing liabilities were \$9,028,000 (2.4%) higher in the six-month period ended June 30, 2009 compared to the same period in 2008. The higher balances, especially in the level of average borrowings and time deposits accounted for a \$344,000 increase in interest expense. This increase was offset by lower rates, which accounted for a \$1,722,000 decrease in interest expense for the six-month period. Rates paid on interest-bearing liabilities decreased 76 basis points from the first six months of 2008 to the first six months of 2009 from 2.17% to 1.41%.

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Table Two, Analysis of Net Interest Margin on Earning Assets, and Table Three, Analysis of Volume and Rate Changes on Net Interest Income and Expenses, are provided to enable the reader to understand the components and trends of the Company's interest income and expenses. Table Two provides an analysis of net interest margin on earning assets setting forth average assets, liabilities and shareholders' equity; interest income earned and interest expense paid and average rates earned and paid; and the net interest margin on earning assets. Table Three sets forth a summary of the changes in interest income and interest expense from changes in average asset and liability balances (volume) and changes in average interest rates.

**Table Two: Analysis of Net Interest Margin on Earning Assets**

| Three Months Ended June 30,                          | 2009              |                 |                  | 2008              |                 |                  |
|--|-------------------|-----------------|------------------|-------------------|-----------------|------------------|
| (Taxable Equivalent Basis)<br>(dollars in thousands) | Avg<br>Balance    | Interest        | Avg<br>Yield (4) | Avg<br>Balance    | Interest        | Avg<br>Yield (4) |
| <b>Assets</b>  |                   |                 |                  |                   |                 |                  |
| Earning assets:                                      |                   |                 |                  |                   |                 |                  |
| Loans and leases (1)                                 | \$ 410,959        | \$ 6,364        | 6.21%            | \$ 405,097        | \$ 6,945        | 6.90%            |
| Taxable investment securities                        | 63,584            | 676             | 4.26%            | 83,410            | 962             | 4.64%            |
| Tax-exempt investment securities (2)                 | 25,450            | 339             | 5.34%            | 27,664            | 355             | 5.16%            |
| Corporate stock (2)                                  | 27                | 6               | 89.13%           | 235               | 13              | 22.25%           |
| Federal funds sold                                   | 6                 |                 | 0.00%            | 1,202             | 6               | 2.01%            |
| Interest-bearing deposits in banks                   | 2,429             | 20              | 3.30%            | 4,942             | 59              | 4.80%            |
| <b>Total earning assets</b>                          | <b>502,455</b>    | <b>7,405</b>    | <b>5.91%</b>     | <b>522,550</b>    | <b>8,340</b>    | <b>6.42%</b>     |
| Cash & due from banks                                | 34,679            |                 |                  | 21,204            |                 |                  |
| Other assets   | 38,122            |                 |                  | 38,145            |                 |                  |
| Allowance for loan & lease losses                    | (6,158)           |                 |                  | (6,072)           |                 |                  |
|  | <b>\$ 569,098</b> |                 |                  | <b>\$ 575,827</b> |                 |                  |
| <b>Liabilities &amp; Shareholders' Equity</b>        |                   |                 |                  |                   |                 |                  |
| Interest-bearing liabilities:                        |                   |                 |                  |                   |                 |                  |
| Interest checking and money market                   | \$ 155,630        | 323             | 0.83%            | \$ 168,788        | 471             | 1.12%            |
| Savings  | 33,380            | 54              | 0.65%            | 35,902            | 64              | 0.72%            |
| Time deposits  | 139,844           | 621             | 1.78%            | 122,871           | 929             | 3.04%            |
| Other borrowings                                     | 54,213            | 305             | 2.26%            | 53,408            | 393             | 2.96%            |
| <b>Total interest-bearing liabilities</b>            | <b>383,067</b>    | <b>1,303</b>    | <b>1.36%</b>     | <b>380,969</b>    | <b>1,857</b>    | <b>1.96%</b>     |
| Noninterest-bearing demand deposits                  | 116,091           |                 |                  | 128,266           |                 |                  |
| Other liabilities                                    | 5,842             |                 |                  | 5,837             |                 |                  |
| <b>Total liabilities</b>                             | <b>505,000</b>    |                 |                  | <b>515,072</b>    |                 |                  |
| Shareholders' equity                                 | 64,098            |                 |                  | 60,755            |                 |                  |
|  | <b>\$ 569,098</b> |                 |                  | <b>\$ 575,827</b> |                 |                  |
| <b>Net interest income &amp; margin (3)</b>          |                   | <b>\$ 6,102</b> | <b>4.87%</b>     |                   | <b>\$ 6,483</b> | <b>4.99%</b>     |

(1)



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Loan interest includes loan costs of \$7,000 and loan fees of \$73,000 during the three months ending June 30, 2009 and June 30, 2008, respectively.

- (2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2009 and 35% for 2008.
  - (3) Net interest margin is computed by dividing net interest income by total average earning assets.
  - (4) Average yield is calculated based on actual days in quarter (91) and annualized to actual days in year (365 days in 2009 and 366 days in 2008).
-

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| Six Months Ended June 30,                            | 2009              |               |                  | 2008              |               |                  |
|--|-------------------|---------------|------------------|-------------------|---------------|------------------|
| (Taxable Equivalent Basis)<br>(dollars in thousands) | Avg<br>Balance    | Interest      | Avg<br>Yield (4) | Avg<br>Balance    | Interest      | Avg<br>Yield (4) |
| <b>Assets</b>  |                   |               |                  |                   |               |                  |
| Earning assets:                                      |                   |               |                  |                   |               |                  |
| Loans and leases (1)                                 | \$ 414,347        | \$ 13,082     | 6.37%            | \$ 404,301        | \$ 14,189     | 7.06%            |
| Taxable investment securities                        | 64,113            | 1,411         | 4.44%            | 85,689            | 1,962         | 4.60%            |
| Tax-exempt investment securities (2)                 | 25,981            | 690           | 5.36%            | 27,140            | 703           | 5.21%            |
| Corporate stock (2)                                  | 19                | 6             | 63.68%           | 240               | 17            | 14.24%           |
| Federal funds sold                                   | 22                |               | 0.00%            | 725               | 8             | 2.22%            |
| Interest-bearing deposits in banks                   | 2,943             | 53            | 3.63%            | 4,942             | 124           | 5.05%            |
| <b>Total earning assets</b>                          | <b>507,425</b>    | <b>15,242</b> | <b>6.06%</b>     | <b>523,037</b>    | <b>17,003</b> | <b>6.54%</b>     |
| Cash & due from banks                                | 29,843            |               |                  | 19,046            |               |                  |
| Other assets   | 42,037            |               |                  | 38,790            |               |                  |
| Allowance for loan & lease losses                    | (5,983)           |               |                  | (5,994)           |               |                  |
|  | <b>\$ 573,322</b> |               |                  | <b>\$ 574,879</b> |               |                  |
| <b>Liabilities &amp; Shareholders Equity</b>         |                   |               |                  |                   |               |                  |
| Interest-bearing liabilities:                        |                   |               |                  |                   |               |                  |
| Interest checking and money market                   | \$ 153,033        | 641           | 0.84%            | \$ 168,644        | 1,068         | 1.27%            |
| Savings  | 32,904            | 108           | 0.66%            | 36,101            | 150           | 0.84%            |
| Time deposits  | 136,767           | 1,330         | 1.96%            | 120,424           | 1,989         | 3.32%            |
| Other borrowings                                     | 65,865            | 636           | 1.95%            | 54,372            | 886           | 3.28%            |
| <b>Total interest-bearing liabilities</b>            | <b>388,569</b>    | <b>2,715</b>  | <b>1.41%</b>     | <b>379,541</b>    | <b>4,093</b>  | <b>2.17%</b>     |
| Noninterest-bearing demand deposits                  | 114,844           |               |                  | 128,572           |               |                  |
| Other liabilities                                    | 5,949             |               |                  | 6,321             |               |                  |
| <b>Total liabilities</b>                             | <b>509,362</b>    |               |                  | <b>514,434</b>    |               |                  |
| Shareholders equity                                  | 63,960            |               |                  | 60,445            |               |                  |
|  | <b>\$ 573,322</b> |               |                  | <b>\$ 574,879</b> |               |                  |
| Net interest income & margin (3)                     |                   | \$ 12,527     | 4.98%            |                   | \$ 12,910     | 4.96%            |

- (1) Loan interest includes loan fees of \$3,000 and \$183,000 during the six months ending June 30, 2009 and June 30, 2008, respectively.
- (2) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2009 and 35% for 2008.
- (3) Net interest margin is computed by dividing net interest income by total average earning assets.
- (4) Average yield is calculated based on actual days in period (181 days in 2009 and 182 days in 2008) and annualized to actual days in year (365 days in 2009 and 366 days in 2008).

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**Table Three: Analysis of Volume and Rate Changes on Net Interest Income and Expenses**

Three Months Ended June 30, 2009 over 2008 (dollars in thousands)

Increase (decrease) due to change in:

|                                      | Volume          | Rate (4)       | Net Change      |
|--------------------------------------|-----------------|----------------|-----------------|
| <b>Interest-earning assets:</b>      |                 |                |                 |
| Net loans (1)(2)                     | \$ 100          | \$ (681)       | \$ (581)        |
| Taxable investment securities        | (227)           | (59)           | (286)           |
| Tax exempt investment securities (3) | (28)            | 12             | (16)            |
| Corporate stock                      | (11)            | 4              | (7)             |
| Federal funds sold                   | (6)             |                | (6)             |
| Interest-bearing deposits in banks   | (30)            | (9)            | (39)            |
| <b>Total</b>                         | <b>(202)</b>    | <b>(733)</b>   | <b>(935)</b>    |
| <b>Interest-bearing liabilities:</b> |                 |                |                 |
| Interest checking and money market   | (36)            | (112)          | (148)           |
| Savings deposits                     | (4)             | (6)            | (10)            |
| Time deposits                        | 127             | (435)          | (308)           |
| Other borrowings                     | 6               | (94)           | (88)            |
| <b>Total</b>                         | <b>93</b>       | <b>(647)</b>   | <b>(554)</b>    |
| <b>Interest differential</b>         | <b>\$ (295)</b> | <b>\$ (86)</b> | <b>\$ (381)</b> |

Six Months Ended June 30, 2009 over 2008 (dollars in thousands)

Increase (decrease) due to change in:

|                                      | Volume          | Rate (4)       | Net Change      |
|--------------------------------------|-----------------|----------------|-----------------|
| <b>Interest-earning assets:</b>      |                 |                |                 |
| Net loans (1)(2)                     | \$ 352          | \$ (1,459)     | \$ (1,107)      |
| Taxable investment securities        | (493)           | (58)           | (551)           |
| Tax exempt investment securities (3) | (30)            | 17             | (13)            |
| Corporate stock                      | (16)            | 5              | (11)            |
| Federal funds sold                   | (8)             |                | (8)             |
| Interest-bearing deposits in banks   | (50)            | (21)           | (71)            |
| <b>Total</b>                         | <b>(245)</b>    | <b>(1,516)</b> | <b>(1,761)</b>  |
| <b>Interest-bearing liabilities:</b> |                 |                |                 |
| Interest checking and money market   | (99)            | (328)          | (427)           |
| Savings deposits                     | (13)            | (29)           | (42)            |
| Time deposits                        | 269             | (928)          | (659)           |
| Other borrowings                     | 187             | (437)          | (250)           |
| <b>Total</b>                         | <b>344</b>      | <b>(1,722)</b> | <b>(1,378)</b>  |
| <b>Interest differential</b>         | <b>\$ (589)</b> | <b>\$ 206</b>  | <b>\$ (383)</b> |

- (1) The average balance of non-accruing loans is immaterial as a percentage of total loans and, as such, has been included in net loans.
- (2) Loan costs of \$7,000 and loan fees of \$73,000 during the three months ending June 30, 2009 and June 30, 2008, respectively, and loan fees of \$3,000 and \$183,000 during the six months ending June 30, 2009 and June 30, 2008, respectively, have been included in the interest income computation.
- (3) Includes taxable-equivalent adjustments that primarily relate to income on certain securities that is exempt from federal income taxes. The effective federal statutory tax rate was 34% for 2009 and 35% for 2008.
- (4) The rate/volume variance has been included in the rate variance.

**Provision for Loan and Lease Losses**

The Company provided \$3,800,000 for loan and lease losses for the second quarter of 2009 as compared to \$190,000 for the second quarter of 2008. Net loan and lease losses for the three months ended June 30, 2009 were \$1,881,000 or 1.84% (on an annualized basis) of average loans and leases as compared to \$96,000 or 0.10% (on an annualized basis) of average loans and leases for the three months ended June 30, 2008. For the first six months of 2009, the Company made provisions for loan and lease losses of \$5,029,000 and net loan and lease losses were \$3,189,000 or 1.55% (on an annualized basis) of average loans and leases outstanding. This compares to provisions for loan and lease losses of \$527,000 and net loan and lease losses of \$299,000 for the first six months of 2008 or .15% (on an annualized basis) of average loans and leases outstanding. The increase in the provision for loan and lease losses for 2009 results from a higher level of charged-off loans and leases and non-performing loans and leases, due mainly to the overall challenging economy in the Company's market areas and the United States, overall. For additional information see the Allowance for Loan and Lease Losses Activity.

**Noninterest Income**

Table Four below provides a summary of the components of noninterest income for the periods indicated (dollars in thousands):

**Table Four: Components of Noninterest Income**

|                                     | Three Months Ended June 30, |        | Six Months Ended June 30, |          |
|-------------------------------------|-----------------------------|--------|---------------------------|----------|
|                                     | 2009                        | 2008   | 2009                      | 2008     |
| Service charges on deposit accounts | \$ 251                      | \$ 169 | \$ 493                    | \$ 354   |
| Accounts receivable servicing fees  | 10                          | 46     | 30                        | 94       |
| Gain on sale of securities          | 160                         | 33     | 160                       | 33       |
| Merchant fee income                 | 112                         | 124    | 221                       | 247      |
| Income from residential lending     |                             | 115    | 7                         | 185      |
| Bank owned life insurance           | 59                          | 102    | 116                       | 202      |
| Other                               | 57                          | 50     | 132                       | 109      |
| Total noninterest income            | \$ 649                      | \$ 639 | \$ 1,159                  | \$ 1,224 |

Noninterest income increased \$10,000 (1.6%) to \$649,000 for the three months ended June 30, 2009 as compared to \$639,000 for the three months ended June 30, 2008. For the six months ended June 30, 2009, noninterest income decreased \$65,000 (5.3%) to \$1,159,000. The increase from the second quarter of 2008 to the second quarter of 2009 was primarily related to higher service charges on deposit accounts, which resulted from increased fees from overdrawn checking accounts (up \$82,000 or 48.5%) and gain on sale of securities, which resulted from more volume (up \$127,000 or 384.8%), offset by lower income from fees from accounts receivable servicing, which resulted from lower overall volume (down \$36,000 or 78.3%); lower fees from residential lending, which resulted from lower volume (down \$115,000); and lower income from bank owned life insurance, which resulted from lower yields on the bank owned life insurance investments (down \$43,000 or 42.2%).

The decrease from the first six months of 2008 compared to the same period in 2009 was primarily related to lower income from fees from accounts receivable servicing (down \$64,000 or 68.1%), lower income from fees on residential lending (down \$178,000 or 962.2%), and lower income from bank owned life insurance (down \$86,000 or 42.6%). The decrease was offset by an increase in higher service charges on deposit accounts (up \$139,000 or 39.3%) and gain on sale of securities (up \$127,000 or 384.8%).

**Noninterest Expense**

Noninterest expense increased \$597,000 (16.4%) to a total of \$4,239,000 in the second quarter of 2009 versus \$3,642,000 in the second quarter of 2008. Salary and employee benefit expense decreased \$246,000 (11.9%) from \$2,073,000 during the second quarter of 2008 to \$1,827,000 during the second quarter of 2009. Most of this decrease resulted from a reduction in the number of full-time equivalent employees and a reduction in the Company's performance-based incentive accrual. Average full-time equivalent employees dropped from 123 during the second quarter of 2008 to 119 during the second quarter of 2009. The incentive accrual decreased \$151,000 or 91% from \$166,000 for the second quarter of 2008 to \$15,000 during the second quarter of 2009. On a quarter-over-quarter basis, occupancy expense decreased by \$22,000 (6.0%) and furniture and equipment expense decreased \$16,000 (8.0%). Other expense increased \$581,000 (57.9%) to a total of \$1,585,000 in the second quarter of 2008 compared to \$1,004,000 in the second quarter of 2009. Much of this increase is related to an increase in costs associated with maintaining the Company's other real estate owned (OREO). The total OREO expense in second quarter of 2009 was \$441,000 compared to zero for the same period in 2008. The OREO expense in 2009 included \$300,000 to establish a valuation allowance. The valuation allowance was established due to the continued weakness in the real estate market. In addition, FDIC insurance increased by \$322,000 from \$13,000 in the second quarter of 2008 to \$335,000 in the second quarter of 2009. Included in this increase is approximately \$253,000 accrued for the special assessment that is due to be paid to the FDIC on September 30, 2009. The efficiency ratios (fully taxable equivalent), excluding the amortization of intangible assets, for the 2009 and 2008 second quarters were 61.8% and 50.1%, respectively.

Noninterest expense for the six-month period ended June 30, 2009 was \$7,840,000 versus \$7,271,000 for the same period in 2008 for an increase of \$569,000 (7.8%). Salaries and benefits expense decreased \$395,000 (9.6%) from \$4,094,000 for the six months ended June 30, 2008 to \$3,699,000 for the same period in 2009. The decrease resulted from a reduction in the number of full-time equivalent employees and a reduction in the Company's performance-based incentive accrual. Occupancy expense decreased \$28,000 (3.8%) and furniture and equipment expense decreased \$15,000 (3.8%). Other expense increased \$1,007,000 (49.0%) from \$2,057,000 for the six months ended June 30, 2008 to \$3,064,000 for the same period in 2009. Much of this increase is related to an increase in costs associated with maintaining the Company's OREO. The total OREO expense in 2009 was \$567,000 compared to zero for the same period in 2008. In addition, FDIC insurance increased by \$383,000 from \$26,000 in 2008 to \$409,000 in 2009. The overhead efficiency ratio (fully taxable equivalent), excluding the amortization of intangible assets, for the first six months of 2009 was 56.3% as compared to 50.4% in the same period of 2008.

**(Benefit from) Provision for Income Taxes**

The Company recorded a benefit from Federal and State income taxes for the quarter ended June 30, 2009 of \$668,000, resulting in an effective tax benefit rate of 48.7%, compared to tax provision expense of \$1.2 million, or an effective tax rate of 38.1%, for the second quarter of 2008. The provision for Federal and State income taxes for the six months ended June 30, 2009 was \$68,000, resulting in an effective tax rate of 10.5%, compared to \$2,349,000, or an effective tax rate of 38.1%, for the same period in 2008. The lower effective tax rate in 2009 results from the Company realizing the benefits of tax free income related to such items as municipal bonds and bank owned life insurance against an overall lower amount of taxable income.

**Balance Sheet Analysis**

The Company's total assets were \$551,810,000 at June 30, 2009 as compared to \$563,157,000 at December 31, 2008, representing a decrease of \$11,347,000 (2.0%). The average assets for the three months ended June 30, 2009 were \$569,098,000, which represents a decrease of \$6,729,000 or 1.2% compared to the balance of \$575,827,000 during the three-month period ended June 30, 2008. The average assets for the six months ended June 30, 2009 were \$573,322,000, which represents a decrease of \$1,557,000 or 0.3% from the balance of \$574,879,000 during the six-month period ended June 30, 2008. Although the overall decrease was slight, there was a positive shift from investment securities to loans. Average loans increased \$5,862,000 (1.4%) from the second quarter of 2008 to the second quarter of 2009, while average investment securities decreased \$22,248,000 (19.9%) during the same time period. The Company chose to utilize the proceeds from matured and pay downs of investment securities as a funding source for the growth in the loans.

**Investment Securities**

The Company classifies its investment securities as available-for-sale or held-to-maturity. The Company's intent is to hold all securities classified as held-to-maturity until maturity and management believes that it has the ability to do so. Securities available-for-sale may be sold to implement asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors. Table Five below summarizes the values of the Company's investment securities held on June 30, 2009 and December 31, 2008.

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**Table Five: Investment Securities Composition** (dollars in thousands)

| Available-for-sale (at fair value)                    | June 30, 2009    | December 31, 2008 |
|---|------------------|-------------------|
| <b>Debt securities:</b>                               |                  |                   |
| Mortgage-backed securities                            | \$ 37,505        | \$ 32,232         |
| Obligations of states and political subdivisions      | 27,359           | 31,012            |
| Corporate stock                                       | 87               | 90                |
| <b>Total available-for-sale investment securities</b> | <b>\$ 64,951</b> | <b>\$ 63,334</b>  |
| <b>Held-to-maturity (at amortized cost)</b>           |                  |                   |
| <b>Debt securities:</b>                               |                  |                   |
| Mortgage-backed securities                            | \$ 17,933        | \$ 24,365         |
| <b>Total held-to-maturity investment securities</b>   | <b>\$ 17,933</b> | <b>\$ 24,365</b>  |

Management periodically evaluates each investment security in a loss position for other than temporary impairment relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. Management has the ability and intent to hold securities with established maturity dates until recovery of fair value, which may be maturity, and believes it will be able to collect all amounts due according to the contractual terms for all of the underlying investment securities; therefore, management does not consider these investments to be other-than-temporarily-impaired.

**Loans and Leases**

The Company concentrates its lending activities in the following principal areas: (1) commercial; (2) commercial real estate; (3) multi-family real estate; (4) real estate construction (both commercial and residential); (5) residential real estate; (6) lease financing receivable; (7) agriculture; and (8) consumer loans. At June 30, 2009, these categories accounted for approximately 20%, 55%, 2%, 9%, 7%, 1%, 2% and 4%, respectively, of the Company's loan portfolio. This mix was relatively unchanged compared to 22%, 52%, 2%, 12%, 6%, 1%, 2% and 3% at December 31, 2008. The Company's continuing focus in our market area, new borrowers developed through the Company's marketing efforts, and credit extensions expanded to existing borrowers resulted in the Company originating \$30 million in new loans during the first six months of 2009. Normal pay downs, loan chargeoffs, and loans transferred to OREO, resulted in an overall decrease in total loans and leases of \$12,301,000 (3.9%) from December 31, 2008. Table Six below summarizes the composition of the loan portfolio as of June 30, 2009 and December 31, 2008.

**Table Six: Loan and Lease Portfolio Composition**

| (dollars in thousands)              | June 30, 2009     | December 31, 2008 | Change in dollars  | Percentage change |
|-------------------------------------|-------------------|-------------------|--------------------|-------------------|
| Commercial                          | \$ 82,799         | \$ 90,625         | \$ (7,826)         | (8.6)%            |
| Real estate                         |                   |                   |                    |                   |
| Commercial                          | 223,018           | 218,626           | 4,392              | 2.0%              |
| Multi-family                        | 8,091             | 8,938             | (847)              | (9.5)%            |
| Construction                        | 38,176            | 48,664            | (10,488)           | (21.6)%           |
| Residential                         | 27,738            | 24,706            | 3,092              | 12.3%             |
| Lease financing receivable          | 4,390             | 4,475             | (85)               | (1.9)%            |
| Agriculture                         | 7,526             | 8,015             | (489)              | (6.1)%            |
| Consumer                            | 14,806            | 14,796            | 10                 | 0.1%              |
| <b>Total loans and leases</b>       | <b>406,544</b>    | <b>418,845</b>    | <b>(12,301)</b>    | <b>(3.9)%</b>     |
| Deferred loan and lease fees, net   | (595)             | (571)             | (24)               |                   |
| Allowance for loan and lease losses | (7,758)           | (5,918)           | (1,840)            |                   |
| <b>Total net loans and leases</b>   | <b>\$ 398,191</b> | <b>\$ 412,356</b> | <b>\$ (14,165)</b> | <b>(3.4)%</b>     |





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A significant portion of the Company's loans and leases are direct loans and leases made to individuals and local businesses. The Company relies substantially on local promotional activity and personal contacts by American River Bank officers, directors and employees to compete with other financial institutions. The Company makes loans and leases to borrowers whose applications include a sound purpose and a viable primary repayment source, generally supported by a secondary source of repayment.

Commercial loans consist of credit lines for operating needs, loans for equipment purchases, working capital, and various other business loan products. Consumer loans include a range of traditional consumer loan products such as personal lines of credit and homeowner equity lines of credit and loans to finance purchases of autos, boats, recreational vehicles, mobile homes and various other consumer items. Construction loans are generally comprised of commitments to customers within the Company's service area for construction of commercial properties, multi-family properties and custom and semi-custom single-family residences. Other real estate loans consist primarily of loans secured by first trust deeds on commercial and residential properties typically with maturities from 3 to 10 years and original loan-to-value ratios generally from 65% to 75%. Agriculture loans consist primarily of vineyard loans and development loans to plant vineyards. In general, except in the case of loans under SBA programs or Farm Services Agency guarantees, the Company does not make long-term mortgage loans.

Subprime real estate loans generally refer to residential mortgages made to higher-risk borrowers with lower credit and/or income histories. Within the industry, many of these loans were originated with adjustable interest rates that reset upward after an introductory period. These subprime loans coupled with declines in housing prices have led to an increase in the industry's default rates resulting in many instances of increased foreclosure rates as the adjustable interest rates reset to higher levels. The Company does not have any such subprime loans at June 30, 2009.

### **Risk Elements**

The Company assesses and manages credit risk on an ongoing basis through a total credit culture that emphasizes excellent credit quality, extensive internal monitoring and established formal lending policies. Additionally, the Company contracts with an outside loan review consultant to periodically review the existing loan and lease portfolio. Management believes its ability to identify and assess risk and return characteristics of the Company's loan and lease portfolio is critical for profitability and growth. Management strives to continue its emphasis on credit quality in the loan and lease approval process, through active credit administration and regular monitoring. With this in mind, management has designed and implemented a comprehensive loan and lease review and grading system that functions to continually assess the credit risk inherent in the loan and lease portfolio. In addition, the Company has taken actions to further strengthen its lending compliance management system in accordance with recommendations arising out of its 2008 compliance examination including, among other matters, enhancement of existing procedures for internal control of loan compliance functions such as maintenance of required levels of compliance training, increased monitoring of the compliance program, and identification of any compliance weaknesses. The Company is taking actions to further strengthen and improve its asset quality in accordance with recommendations arising out of its recently concluded 2009 regulatory examination including, among other matters, enhancement of existing procedures for appraisal and re-appraisals on loans, leases and other real estate owned, and problem loan identification, including identification of impaired loans and leases and identification of troubled debt restructured loans.

Ultimately, underlying trends in economic and business cycles may influence credit quality. American River Bank's business is concentrated in the Sacramento Metropolitan Statistical Area, which is a diversified economy, but with a large State of California government presence and employment base, in Sonoma County, through North Coast Bank, a division of American River Bank, whose business is focused on businesses within the three communities in which it has offices (Santa Rosa, Windsor, and Healdsburg) and in Amador County, through Bank of Amador, a division of American River Bank, whose business is focused on businesses and consumers within the three communities in which it has offices (Jackson, Pioneer, and Ione) as well as a diversified residential construction loan business in numerous Northern California counties. The economy of Sonoma County is diversified with professional services, manufacturing, agriculture and real estate investment and construction, while the economy of Amador County is reliant upon government, services, retail trade, manufacturing industries and Indian gaming.

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The Company has significant extensions of credit and commitments to extend credit that are secured by real estate. The ultimate repayment of these loans is generally dependent on personal or business cash flows or the sale or refinancing of the real estate. The Company monitors the effects of current and expected market conditions and other factors on the collectability of real estate loans. The more significant factors management considers involve the following: lease rate and terms, vacancy rates, absorption and sale rates and capitalization rates; real estate values, supply and demand factors, and rates of return; operating expenses; inflation and deflation; and sufficiency of repayment sources independent of the real estate including, in some instances, personal guarantees.

In extending credit and commitments to borrowers, the Company generally requires collateral and/or guarantees as security. The repayment of such loans is expected to come from cash flow or from proceeds from the sale of selected assets of the borrowers. The Company's requirement for collateral and/or guarantees is determined on a case-by-case basis in connection with management's evaluation of the creditworthiness of the borrower. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing properties, residences and other real property. The Company secures its collateral by perfecting its security interest in business assets, obtaining deeds of trust, or outright possession among other means.

In management's judgment, a concentration exists in real estate loans which represented approximately 73.1% of the Company's loan and lease portfolio at June 30, 2009, up from 71.8% at December 31, 2008. Management believes that the residential land and residential construction portion of the Company's loan portfolio carries more than the normal credit risk it has seen in the past several years, due primarily to severely curtailed demand for new and resale residential property, a large supply of unsold residential land and new and resale homes, and observed reductions in values throughout the Company's market area. Management has responded by evaluating loans that it considers to carry any significant risk above the normal risk of collectability by taking actions where possible to reduce credit risk exposure by methods that include, but are not limited to, seeking liquidation of the loan by the borrower, seeking additional tangible collateral or other repayment support, converting the property through judicial or non-judicial foreclosure proceedings, and other collection techniques. Management currently believes that it maintains its allowance for loan and lease loss at levels adequate to reflect the loss risk inherent in its total loan portfolio.

Although management believes the Company's real estate concentration to have no more than the normal risk of collectability, a continued substantial further decline in the economy in general, or a continued additional decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on the collectability of these loans and require an increase in the provision for loan and lease losses which could adversely affect the Company's future prospects, results of operations, profitability and stock price. Management believes that its lending policies and underwriting standards will tend to minimize losses in an economic downturn; however, there is no assurance that losses will not occur under such circumstances. The Company's loan policies and underwriting standards include, but are not limited to, the following: (1) maintaining a thorough understanding of the Company's service area and originating a significant majority of its loans within that area, (2) maintaining a thorough understanding of borrowers' knowledge, capacity, and market position in their field of expertise, (3) basing real estate loan approvals not only on market demand for the project, but also on the borrowers' capacity to support the project financially in the event it does not perform to expectations (whether sale or income performance), and (4) maintaining conforming and prudent loan-to-value and loan-to-cost ratios based on independent outside appraisals and ongoing inspection and analysis by the Company's lending officers or contracted third-party professionals.

### **Nonaccrual, Past Due and Restructured Loans and Leases**

Management generally places loans and leases on nonaccrual status when they become 90 days past due or if a loss is expected, unless the loan or lease is well secured and in the process of collection. Loans and leases are partially or fully charged off when, in the opinion of management, collection of such amount appears unlikely.

At June 30, 2009, non-performing loans and leases (those loans and leases on nonaccrual status and those loans and leases still accruing and past due 90 days or more) were \$20,946,000 or 5.16% of total loans and leases. The \$20,946,000 in non-performing loans and leases is made up of thirty loans and five leases. Four of those loans and two of those leases totaling \$7,040,000 are current (less than 30 days past due) pursuant to their original or modified terms. Non-performing loans and leases were \$6,241,000 or 1.49% of total loans and leases at December 31, 2008.

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During the second quarter of 2009, twelve additional loans and leases in the amount of \$16,274,000 were placed on non-performing status. Of these twelve loans, eight loans totaling \$11,327,000 are real estate secured, three loans totaling \$4,937,000 are secured by non-real estate assets, and there is one lease totaling \$10,000. In addition, the Company has two leases totaling \$49,000 that are over 90 days past due and still accruing interest as they are well secured and in the process of collection. The net interest due on nonaccrual loans and leases but excluded from interest income was \$378,000 for the three months ended June 30, 2009, compared to \$260,000 during the same period in 2008. The net interest due on nonaccrual loans and leases but excluded from interest income was \$647,000 for the six months ended June 30, 2009, compared to \$597,000 during the same period in 2008.

There were no loan or lease concentrations in excess of 10% of total loans and leases not otherwise disclosed as a category of loans and leases as of June 30, 2009. Management is not aware of any potential problem loans, which were accruing and current at June 30, 2009, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to the Company. Table Seven below sets forth nonaccrual loans and loans past due 90 days or more as of June 30, 2009 and December 31, 2008.

**Table Seven: Non-Performing Loans**

| (dollars in thousands)                      | June 30, 2009    | December 31, 2008 |
|---|------------------|-------------------|
| Past Due 90 days or more and still accruing |                  |                   |
| Commercial                                  | \$               | \$                |
| Real estate                                 |                  | 444               |
| Lease financing receivable                  | 49               | 22                |
| Consumer and other                          |                  | 8                 |
| Nonaccrual                                  |                  |                   |
| Commercial                                  | 5,070            | 261               |
| Real estate                                 | 15,804           | 5,487             |
| Lease financing receivable                  | 23               | 19                |
| Consumer and other                          |                  |                   |
| <b>Total non-performing loans</b>           | <b>\$ 20,946</b> | <b>\$ 6,241</b>   |

### Impaired Loans

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan discounted at the loan's original effective interest rate, (ii) the observable market price of the impaired loan, or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans that are collectively evaluated for credit risk. In assessing impairment, the Company reviews all loans graded substandard or lower with outstanding principal balances in excess of \$250,000. As of June 30, 2009, the recorded investment in loans and leases that were considered to be impaired totaled \$34,459,000, which includes \$19,830,000 in non-performing loans and leases and \$14,629,000 in performing loans and leases. There were \$1,116,000 in loans that were either 90-days past due and still accruing or non-performing but not considered impaired. Of the total impaired loans of \$34,459,000, \$24,372,000 was deemed to require no specific reserve and \$10,087,000 was deemed to require a related valuation allowance of \$2,899,000. As of December 31, 2008, the recorded investment in loans and leases that were considered to be impaired and were deemed to require specific reserves totaled \$6,083,000 and had a related valuation allowance of \$788,000. At June 30, 2009, there were twelve loans that were modified and are currently performing and considered troubled debt restructures totaling \$8,638,000.

### Allowance for Loan and Lease Losses Activity

The Company maintains an allowance for loan and lease losses ( ALLL ) to cover probable losses inherent in the loan and lease portfolio, which is based upon management's estimated range of those losses. The ALLL is established through a provision for loan and lease losses and is increased by provisions charged against current earnings and recoveries and reduced by charge-offs. Actual losses for loans and leases can vary significantly from this estimate. The methodology and assumptions used to calculate the allowance are continually reviewed as to their appropriateness given the most recent losses realized and other factors that influence the estimation process. The model assumptions and resulting allowance level are adjusted accordingly as these factors change.

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The adequacy of the ALLL and the level of the related provision for loan and lease losses is determined based on management's judgment after consideration of numerous factors including but not limited to: (i) local and regional economic conditions, (ii) the financial condition of the borrowers, (iii) loan impairment and the related level of expected charge-offs, (iv) evaluation of industry trends, (v) industry and other concentrations, (vi) loans and leases which are contractually current as to payment terms but demonstrate a higher degree of risk as identified by management, (vii) continuing evaluations of the performing loan portfolio, (viii) ongoing review and evaluation of problem loans identified as having loss potential, (ix) quarterly review by the Board of Directors, and (x) assessments by banking regulators and other third parties. Management and the Board of Directors evaluate the ALLL and determine its appropriate level considering objective and subjective measures, such as knowledge of the borrowers' business, valuation of collateral, the determination of impaired loans or leases and exposure to potential losses.

The allowance for loan and lease losses totaled \$7,758,000 or 1.91% of total loans and leases at June 30, 2009 compared to \$5,918,000 or 1.41% of total loans and leases at December 31, 2008. The Company establishes general reserves in accordance with Statement of Accounting Standards (SFAS) No. 5, Accounting for Contingencies, and specific reserves in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan. The ALLL is maintained by categories of the loan and lease portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. Table Eight below summarizes, for the periods indicated, the activity in the ALLL.

**Table Eight: Allowance for Loan and Lease Losses**

| (dollars in thousands)  | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2009                           | 2008       | 2009                         | 2008       |
| Average loans and leases outstanding  | \$ 410,959                     | \$ 405,097 | \$ 414,347                   | \$ 404,301 |
| Allowance for loan and lease losses at beginning of period  | \$ 5,839                       | \$ 6,017   | \$ 5,918                     | \$ 5,883   |
| Loans and leases charged off:   |                                |            |                              |            |
| Commercial  | (655)                          | (56)       | (665)                        | (107)      |
| Real estate   | (1,203)                        |            | (2,496)                      | (150)      |
| Lease financing receivable  | (15)                           | (25)       | (15)                         | (25)       |
| Consumer  | (23)                           | (20)       | (30)                         | (27)       |
| Total   | (1,896)                        | (101)      | (3,206)                      | (309)      |
| Recoveries of loans and leases previously charged off:  |                                |            |                              |            |
| Commercial  | 13                             | 1          | 13                           | 2          |
| Real estate   | 1                              |            | 1                            |            |
| Lease financing receivable  | 1                              | 4          | 3                            | 8          |
| Consumer  |                                |            |                              |            |
| Total   | 15                             | 5          | 17                           | 10         |
| Net loans charged off   | (1,881)                        | (96)       | (3,189)                      | (299)      |
| Additions to allowance charged to operating expenses  | 3,800                          | 190        | 5,029                        | 527        |
| Allowance for loan and lease losses at end of period  | \$ 7,758                       | \$ 6,111   | \$ 7,758                     | \$ 6,111   |
| Ratio of net (recoveries) charge-offs to average loans and leases outstanding (annualized)            | 1.84%                          | .10%       | 1.55%                        | .15%       |
| Provision of allowance for loan and lease losses to average loans and leases outstanding (annualized) | 3.71%                          | .19%       | 2.45%                        | .26%       |
| Allowance for loan and lease losses to loans and leases net of deferred fees at end of period         | 1.91%                          | 1.50%      | 1.91%                        | 1.50%      |



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It is the policy of management to maintain the allowance for loan and lease losses at a level believed to be adequate for known and inherent risks in the portfolio. Our methodology incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan and lease losses that management believes is appropriate at each reporting date. Based on information currently available to analyze inherent credit risk, including economic factors, overall credit quality, historical delinquencies and a history of actual charge-offs, management believes that the provision for loan and lease losses and the allowance for loan and lease losses are prudent and adequate. Adjustments may be made based on differences from estimated loan and lease growth, the types of loans constituting this growth, changes in risk ratings within the portfolio, and general economic conditions. However, no prediction of the ultimate level of loans and leases charged off in future periods can be made with any certainty.

While management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to provide adjustments to the allowance based on their judgment of information available to them at the time of their examination.

### Other Real Estate Owned

At June 30, 2009, the Company had twelve other real estate owned ( OREO ) properties totaling \$3,647,000 with a corresponding valuation allowance of \$300,000. The valuation allowance was established due to the continued weakness in the real estate market. At December 31, 2008, the Company had three properties totaling \$2,158,000 in OREO.

### Deposits

At June 30, 2009, total deposits were \$449,609,000 representing an increase of \$12,548,000 from the December 31, 2008 balance of \$437,061,000. The Company's deposit growth plan for 2009 is to concentrate its efforts on increasing noninterest-bearing demand, interest-bearing money market and NOW accounts, and savings accounts. The Company experienced increases in money market (\$11,510,000 or 10.9%), savings (\$4,119,000 or 12.3%), and time deposits of \$1,774,000 (1.3%) and decreases in noninterest-bearing (\$4,107,000 or 3.4%) and interest-bearing checking (\$748,000 or 1.6%) during 2009.

### Other Borrowed Funds

Other borrowings outstanding as of June 30, 2009 and December 31, 2008, consist of advances (both long-term and short-term) from the Federal Home Loan Bank ( FHLB ). Table Nine below summarizes these borrowings.

**Table Nine: Other Borrowed Funds**

(dollars in thousands)

|                               | June 30, 2009 |       | December 31, 2008 |       |
|-------------------------------|---------------|-------|-------------------|-------|
|                               | Amount        | Rate  | Amount            | Rate  |
| <b>Short-term borrowings:</b> |               |       |                   |       |
| FHLB advances                 | \$ 14,500     | 2.99% | \$ 43,231         | 1.83% |
| <b>Long-term borrowings:</b>  |               |       |                   |       |
| FHLB advances                 | \$ 21,500     | 2.39% | \$ 14,000         | 3.19% |

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The maximum amount of short-term borrowings at any month-end during the first two quarters of 2009 and 2008 was \$69,448,000 and \$42,544,000, respectively. The FHLB advances are collateralized by loans and securities pledged to the FHLB. The following is a breakdown of rates and maturities on FHLB advances (dollars in thousands):

|               | Short-term   | Long-term    |
|---------------|--------------|--------------|
| Amount        | \$ 14,500    | \$ 21,500    |
| Maturity      | 2009 to 2010 | 2010 to 2014 |
| Average rates | 2.99%        | 2.39%        |

The Company has also been issued a total of \$1,750,000 in a letter of credit by the FHLB which has been pledged to secure Local Agency Deposits. The letter of credit acts as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The letter of credit was not drawn upon in 2009 or 2008 and management does not currently expect to draw upon this line in the foreseeable future. See the Liquidity section that follows for additional information on FHLB borrowings.

### Capital Resources

The Company and American River Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and American River Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At June 30, 2009, shareholders' equity was \$62,276,000, representing a decrease of \$1,171,000 (1.8%) from \$63,447,000 at December 31, 2008. The decrease results from the cash dividends paid to shareholders and the decrease in other comprehensive income exceeding the net income for the period, the stock based compensation, and the proceeds from the exercise of stock options. The ratio of total risk-based capital to risk adjusted assets was 11.8% at June 30, 2009 and 11.5% at December 31, 2008. Tier 1 risk-based capital to risk-adjusted assets was 10.6% at June 30, 2009 and 10.4% at December 31, 2008.

Table Ten below lists the Company's actual capital ratios at June 30, 2009 and December 31, 2008 as well as the minimum capital ratios for capital adequacy.

#### Table Ten: Capital Ratios

| Capital to Risk-Adjusted Assets | At June 30,<br>2009 | At December 31,<br>2008 | Minimum Regulatory<br>Capital Requirements |
|---------------------------------|---------------------|-------------------------|--|
| Leverage ratio                  | 8.2%                | 8.3%                    | 4.00%                                      |
| Tier 1 Risk-Based Capital       | 10.6%               | 10.2%                   | 4.00%                                      |
| Total Risk-Based Capital        | 11.8%               | 11.5%                   | 8.00%                                      |

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet future needs. Management believes that both the Company and the American River Bank met all of their capital adequacy requirements as of June 30, 2009 and December 31, 2008.

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The Company filed an application with the U.S. Treasury to preserve its opportunity to participate in the Capital Purchase Program ( CPP ) and received approval of its application on November 21, 2008. However, the Board of Directors subsequently determined that participation in the CPP was not in the best interests of the Company and its shareholders after evaluation of the CPP and due diligence reviews of the CPP agreements and documentation including restrictions imposed upon the Company under the investment agreement and related documentation which could reduce investment returns to shareholders of participating bank holding companies and banks by restricting dividends to common shareholders, diluting existing shareholders' interests, and restricting capital management practices, and consideration of various other factors including, but not limited to, capital raising alternatives and the condition of capital markets, the current and projected economic conditions in the Company's market areas and the United States generally, the condition of the Company's loan and investment portfolios and other financial factors, and with advice of such advisors as the Company's Board of Directors deemed appropriate. The Company gave notice to the U.S. Treasury on January 20, 2009 of its intention not to participate in the CPP. The Company continues to evaluate the impact of the deteriorating economic conditions in the United States, California and in the Company's operating markets relative to the inherent risks to its loan portfolio as borrowers are confronted with extraordinary economic circumstances of significant increases in unemployment and declines in the value of investments (including the value of residential and commercial real estate). The Company's evaluation of such economic circumstances includes an assessment of its capital requirements in addition to loan reviews and analysis of the sufficiency of the allowance for loan and lease losses. The Company anticipates that it may be necessary to augment capital as a consequence of such economic circumstances in order to maintain safe and sound banking operations with appropriate capital ratios under applicable regulatory guidelines, which may include various forms of capital raising transactions and elimination of cash dividends and stock repurchases. Effective July 27, 2009, the Company temporarily suspended both the payment of cash dividends and the stock repurchases. See Part II, Item 2, for additional disclosure.

### **Inflation**

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing or other commercial concerns primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Company and its subsidiaries through its effect on market rates of interest, which affects the Company's ability to attract loan customers. Inflation affects the growth of total assets by increasing the level of loan demand and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings which may be generated in the future. In addition to its effects on interest rates, inflation increases overall operating expenses. Inflation has not had a significant effect upon the results of operations of the Company and its subsidiaries during the periods ended June 30, 2009 and 2008.

### **Liquidity**

Liquidity management refers to the Company's ability to provide funds on an ongoing basis to meet fluctuations in deposit levels as well as the credit needs and requirements of its clients. Both assets and liabilities contribute to the Company's liquidity position. Federal funds lines, borrowing arrangements with the FHLB, payments at maturity of short-term investments and securities, and loan repayments contribute to liquidity, along with deposit increases, while loan funding and deposit withdrawals decrease liquidity. The Company assesses the likelihood of projected funding requirements by reviewing historical funding patterns, current and forecasted economic conditions and individual client funding needs. Commitments to fund loans and outstanding letters of credit at June 30, 2009 and December 31, 2008 were approximately \$67,713,000 and \$4,427,000 and \$76,937,000 and \$3,798,000, respectively. Such loan commitments relate primarily to revolving lines of credit, other commercial loans and to real estate construction loans. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.



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The Company's sources of liquidity consist of cash and due from correspondent banks, overnight funds sold to correspondent banks, unpledged marketable investments and loans held for sale and/or pledged for secured borrowings. At June 30, 2009, consolidated liquid assets totaled \$33.0 million or 6.0% of total assets compared to \$41.3 million or 7.3% of total assets on December 31, 2008. In addition to liquid assets, the Company maintains short-term lines of credit in the amount of \$52,000,000 with correspondent banks. At June 30, 2009, the Company had \$52,000,000 available under these credit lines. Additionally, the Bank is a member of the FHLB. At June 30, 2009, the Bank could have arranged for up to \$105,020,000 in secured borrowings from the FHLB. These borrowings are secured by pledged mortgage loans and investment securities. At June 30, 2009, the Company had advances, borrowings and commitments (including letters of credit) outstanding of \$37,750,000, leaving \$67,270,000 available under these FHLB secured borrowing arrangements. American River Bank also has a secured borrowing arrangement with the Federal Reserve Bank. The borrowing can be secured by pledging selected loans and investment securities. At June 30, 2009, the collateral value at the Federal Reserve Bank was \$10,312,000. The Bank also has informal agreements with various other banks to sell participations in loans, if necessary. The Company serves primarily a business and professional customer base and, as such, its deposit base is susceptible to economic fluctuations. Accordingly, management strives to maintain a balanced position of liquid assets and borrowing capacity to offset the potential runoff of these volatile and/or cyclical deposits.

Liquidity is also affected by portfolio maturities and the effect of interest rate fluctuations on the marketability of both assets and liabilities. The Company can sell any of its unpledged securities held in the available-for-sale category to meet liquidity needs. These securities are also available to pledge as collateral for borrowings if the need should arise. The Bank has established a master repurchase agreement with a correspondent bank to enable such transactions. The Bank can also pledge securities to borrow from the FRB and the FHLB.

The principal cash requirements of the Company are for expenses incurred in the support of administration and operations. For nonbanking functions, the Company is dependent upon the payment of cash dividends from the Bank to service its commitments. The Company expects that the cash dividends paid by the Bank to the Company will be sufficient to meet this payment schedule.

### Off-Balance Sheet Items

The Company 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 customers and to reduce its exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company applies the same credit policies to commitments and letters of credit as it does for loans included on the consolidated balance sheet. As of June 30, 2009 and December 31, 2008, commitments to extend credit and standby letters of credit were the only financial instruments with off-balance sheet risk. The Company has not entered into any contracts for financial derivative instruments such as futures, swaps, options or similar instruments. Loan commitments and standby letters of credit were \$72,140,000 and \$80,735,000 at March 31, 2009 and December 31, 2008, respectively. As a percentage of net loans and leases these off-balance sheet items represent 18.1% and 19.6%, respectively.

The Company has certain ongoing commitments under operating leases. These commitments do not significantly impact operating results.

### Website Access

American River Bankshares maintains a website where certain information about the Company is posted. Through the website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto, as well as Section 16 Reports and amendments thereto, are available as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the SEC). These reports are free of charge and can be accessed through the address [www.amrb.com](http://www.amrb.com) by clicking on the *SEC Filings* link located at that address. Once you have selected the *SEC Filings* link you will have the option to access the Section 16 Reports or the other above-referenced reports filed by the Company by selecting the appropriate link.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.****Market Risk Management**

*Overview.* Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its loan, investment and deposit functions. The goal for managing the assets and liabilities of the Company is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Company to undue interest rate risk. The Board of Directors has overall responsibility for the interest rate risk management policies. The Company has a Risk Management Committee, made up of Company management that establishes and monitors guidelines to control the sensitivity of earnings to changes in interest rates.

*Asset/Liability Management.* Activities involved in asset/liability management include but are not limited to lending, accepting and placing deposits and investing in securities. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to interest rate changes arises when yields on assets change in a different time period or in a different amount from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin and market value of equity under changing interest environments. The Company uses simulation models to forecast earnings, net interest margin and market value of equity.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Using computer-modeling techniques, the Company is able to estimate the potential impact of changing interest rates on earnings. A balance sheet forecast is prepared quarterly using inputs of actual loans, securities and interest-bearing liabilities (i.e. deposits/borrowings) positions as the beginning base. The forecast balance sheet is processed against three interest rate scenarios. The scenarios include a 200 basis point rising rate forecast, a flat rate forecast and a 200 basis point falling rate forecast which take place within a one-year time frame. The net interest income is measured during the year assuming a gradual change in rates over the twelve-month horizon. The simulation modeling indicated below attempts to estimate changes in the Company's net interest income utilizing a forecast balance sheet projected from the end of period balances.

Table Eleven below summarizes the effect on net interest income (NII) of a  $\pm 200$  basis point change in interest rates as measured against a constant rate (no change) scenario.

**Table Eleven: Interest Rate Risk Simulation of Net Interest as of June 30, 2009 and December 31, 2008**

| (dollars in thousands)                  | \$ Change in NII<br>from Current<br>12 Month Horizon<br>June 30, 2009 | \$ Change in NII<br>from Current<br>12 Month Horizon<br>December 31, 2008 |
|---|---|---|
| Variation from a constant rate scenario |   |   |
| +200bp                                  | \$ (323)  | \$ (191)  |
| - 200bp                                 | \$ 461  | \$ 540  |

The simulations of earnings do not incorporate any management actions, which might moderate the negative consequences of interest rate deviations. Therefore, they do not reflect likely actual results, but serve as reasonable estimates of interest rate risk.

**Item 4. Controls and Procedures.**

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2009. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

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During the quarter ended June 30, 2009, there have been no changes in the Company's internal control over financial reporting that have significantly affected, or are reasonably likely to materially affect, these controls.

### Item 4T. Controls and Procedures.

The information required under Item 308T(b) of Regulation S-K is included in Item 4 above.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, the Company and/or its subsidiaries is a party to claims and legal proceedings arising in the ordinary course of business. The Company's management is not aware of any significant pending legal proceedings to which either it or its subsidiaries may be a party or has recently been a party, which will have a significant adverse effect on the financial condition or results of operations of the Company or its subsidiaries, taken as a whole.

### Item 1A. Risk Factors.

There have been no significant changes in the risk factors previously disclosed in the Company's Form 10-K for the period ended December 31, 2008, filed with the Securities and Exchange Commission on March 6, 2009.

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

On January 16, 2008, the Board of Directors of the Company authorized a stock repurchase program which allowed for the repurchase of up to six and one half percent (6.5%) annually of the Company's outstanding shares of common stock. Each year the Company could repurchase up to 6.5% of the shares outstanding (adjusted for stock splits or stock dividends). The number of shares reported in column (d) of the table as shares that could be repurchased under the plan represent shares eligible for the calendar year 2009. The repurchases under this plan can be made from time to time in the open market as conditions allow and will be structured to comply with Commission Rule 10b-18. Management reports monthly to the Board of Directors on the status of the repurchase program. The Board of Directors reserved the right to suspend, terminate, modify or cancel the repurchase programs at any time for any reason. The following table lists shares repurchased during the quarter and the maximum amount available to repurchase under the repurchase plan as of the dates noted.

| Period  | (a)<br>Total Number<br>of Shares (or<br>Units)<br>Purchased | (b)<br>Average Price<br>Paid Per Share<br>(or Unit) | (c)<br>Total Number of Shares<br>(or Units) Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | (d)<br>Maximum Number (or<br>Approximate Dollar Value) of<br>Shares (or Units) That May<br>Yet Be Purchased Under the<br>Plans or Programs |
|---|---|---|--|--|
| Month #1<br>April 1 through<br>April 30, 2009 | None  | N/A   | None   | 376,498  |
| Month #2<br>May 1 through<br>May 31, 2009     | None  | N/A   | None   | 376,498  |
| Month #3<br>June 1 through<br>June 30, 2009   | None  | N/A   | None   | 376,498  |
| Total   | None  | N/A   | None   |  |

On July 27, 2009, the Company announced that the Board of Directors had temporarily suspended the stock repurchase program.

**Item 3. Defaults Upon Senior Securities.**

None.

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

The following are the voting results of the registrant's annual meeting of the shareholders held on May 21, 2009:

PROPOSAL NO. 1: Election of Directors.

The following Directors were elected to serve until the 2010 Annual Meeting of Shareholders and until their successors are duly elected and have qualified with the following vote tabulation:

Directors elected to a one-year term expiring in 2009:

|                          |     |           |         |   |         |         |
|--------------------------|-----|-----------|---------|---|---------|---------|
| Dorene C. Dominguez:     | FOR | 4,930,103 | AGAINST | 0 | ABSTAIN | 80,983  |
| Stephen H. Waks:         | FOR | 4,957,453 | AGAINST | 0 | ABSTAIN | 53,633  |
| Michael A. Ziegler:      | FOR | 4,950,759 | AGAINST | 0 | ABSTAIN | 60,327  |
| Charles D. Fite:         | FOR | 4,954,577 | AGAINST | 0 | ABSTAIN | 56,509  |
| Robert J Fox:            | FOR | 4,957,226 | AGAINST | 0 | ABSTAIN | 53,860  |
| Philip A. Wright:        | FOR | 4,947,453 | AGAINST | 0 | ABSTAIN | 63,633  |
| Roger J. Taylor, D.D.S.: | FOR | 4,616,171 | AGAINST | 0 | ABSTAIN | 394,915 |

PROPOSAL NO. 2: To authorize the issuance of preferred stock.

The proposal was ratified with the following vote tabulation:

|     |           |         |         |         |         |
|-----|-----------|---------|---------|---------|---------|
| FOR | 3,351,252 | AGAINST | 418,602 | ABSTAIN | 116,684 |
|-----|-----------|---------|---------|---------|---------|

PROPOSAL NO. 2: To ratify the appointment of Perry-Smith LLP as independent registered public accountants for the Company for the 2009 fiscal year.

The proposal was ratified with the following vote tabulation:

|     |           |         |       |         |        |
|-----|-----------|---------|-------|---------|--------|
| FOR | 4,976,614 | AGAINST | 2,123 | ABSTAIN | 32,349 |
|-----|-----------|---------|-------|---------|--------|

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| Exhibit Number | Document Description  |
|----------------|---|
| (2.1)          | Agreement and Plan of Reorganization and Merger by and among the Registrant, ARH Interim National Bank and North Coast Bank, N.A., dated as of March 1, 2000 (included as Annex A). **            |
| (2.2)          | Agreement and Plan of Reorganization and Merger by and among the Registrant, American River Bank and Bank of Amador, dated as of July 8, 2004 (included as Annex A). ***                          |
| (3.1)          | Articles of Incorporation, as amended.  |
| (3.2)          | Bylaws, as amended, incorporated by reference from Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the Commission on August 8, 2008. |



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- (4.1) Specimen of the Registrant's common stock certificate, incorporated by reference from Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
- (10.1) Lease agreement between American River Bank and Spieker Properties, L.P., a California limited partnership, dated April 1, 2000, related to 1545 River Park Drive, Suite 107, Sacramento, California. \*\*
- (10.2) Lease agreement between American River Bank and Bradshaw Plaza, Associates, Inc. dated November 27, 2006, related to 9750 Business Park Drive, Sacramento, California incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on November 28, 2006.
- (10.3) Lease agreement between American River Bank and Marjorie Wood Taylor, Trustee of the Marjorie Wood-Taylor Trust, dated April 5, 1984, and addendum thereto dated July 16, 1997, related to 10123 Fair Oaks Boulevard, Fair Oaks, California (\*\*) and Amendment No. 2 thereto dated May 14, 2009, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 15, 2009.
- (10.4) Lease agreement between American River Bank and LUM YIP KEE, Limited (formerly Sandalwood Land Company) dated August 28, 1996, related to 2240 Douglas Boulevard, Suite 100, Roseville, California (\*\*) and Amendment No. 1 thereto dated July 28, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on July 31, 2006.
- \*(10.5) Registrant's 1995 Stock Option Plan. \*\*
- \*(10.6) Form of Nonqualified Stock Option Agreement under the 1995 Stock Option Plan. \*\*
- \*(10.7) Form of Incentive Stock Option Agreement under the 1995 Stock Option Plan. \*\*
- \*(10.8) Registrant's Deferred Compensation Plan, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
- \*(10.9) Registrant's Deferred Fee Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.
- (10.10) Lease agreement between American River Bank and 520 Capitol Mall, Inc., dated August 19, 2003, related to 520 Capitol Mall, Suite 100, Sacramento, California, incorporated by reference from Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003 and the First Amendment thereto dated April 21, 2004, incorporated by reference from Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed with the Commission on August 11, 2004.
- \*(10.11) Employment Agreement between Registrant and David T. Taber dated June 2, 2006, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on May 30, 2006.

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- (10.12) Lease agreement between R & R Partners, a California General Partnership and North Coast Bank, dated July 1, 2003, related to 8733 Lakewood Drive, Suite A, Windsor, California, incorporated by reference from Exhibit 10.32 to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, filed with the Commission on November 7, 2003; the First Amendment thereto, dated January 2, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 3, 2006; and the Second Amendment thereto, dated December 8, 2006, incorporated by reference from Exhibit 10.39 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2007, filed with the Commission on May 7, 2007; and the Third Amendment thereto, dated December 31, 2008, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on January 2, 2009.
- \*(10.13) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- \*(10.14) Salary Continuation Agreement, as amended on February 21, 2008, between the Registrant and David T. Taber, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- \*(10.15) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- \*(10.16) Registrant's 2000 Stock Option Plan with forms of Nonqualified Stock Option Agreement and Incentive Stock Option Agreement. \*\*
- \*(10.17) Registrant's 401(k) Plan dated December 23, 2008, incorporated by reference from Exhibit 99.1 to the Report on Form 8-K, filed with the Commission on December 24, 2008.
- (10.18) Lease agreement between Bank of Amador and the United States Postal Service, dated April 24, 2001, related to 424 Sutter Street, Jackson, California (\*\*\*) and the First Amendment thereto, dated June 5, 2006, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on June 6, 2006.
- \*(10.19) Salary Continuation Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing and related Endorsement Split Dollar Agreement, incorporated by reference from Exhibit 99.4 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- \*(10.20) Director Retirement Agreement, as amended on February 21, 2008, between Bank of Amador, a division of American River Bank, and Larry D. Standing, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- (10.21) Item Processing Agreement between American River Bank and Fidelity Information Services, Inc., dated April 22, 2005, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on April 27, 2005.
- (10.22) Lease agreement between Registrant and One Capital Center, a California limited partnership, dated May 17, 2005, related to 3100 Zinfandel Drive, Rancho Cordova, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 18, 2005.
- (10.23) Managed Services Agreement between American River Bankshares and ProNet Solutions, Inc., dated June 16, 2009, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on June 18, 2009.

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- \*(10.24) American River Bankshares 2005 Executive Incentive Plan, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 27, 2005; the First Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 17, 2006; and the Second Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on March 23, 2007; and the Third Amendment thereto, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- \*(10.25) American River Bankshares Director Emeritus Program, incorporated by reference from Exhibit 10.33 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2006, filed with the Commission on August 8, 2006.
- \*(10.26) Employment Agreement dated September 20, 2006 between American River Bankshares and Mitchell A. Derenzo, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- \*(10.27) Employment Agreement dated September 20, 2006 between American River Bankshares and Douglas E. Tow, incorporated by reference from Exhibit 99.2 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- \*(10.28) Employment Agreement dated September 20, 2006 between American River Bankshares and Kevin B. Bender, incorporated by reference from Exhibit 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- \*(10.29) Employment Agreement dated September 20, 2006 between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.5 to the Registrant's Report on Form 8-K, filed with the Commission on September 20, 2006.
- \*(10.30) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Kevin B. Bender, incorporated by reference from Exhibit 99.6 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- \*(10.31) Salary Continuation Agreement, as amended on February 21, 2008, between American River Bank and Raymond F. Byrne, incorporated by reference from Exhibit 99.7 to the Registrant's Report on Form 8-K, filed with the Commission on February 22, 2008.
- (10.32) Lease agreement dated May 23, 2007 between Bank of Amador, a division of American River Bank, and Joseph Bellamy, Trustee of the Joseph T. Bellamy 2005 Trust, related to 26395 Buckhorn Ridge Road, Pioneer, California, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on May 24, 2007 and the First Amendment thereto, dated October 15, 2007, incorporated by reference from Exhibit 99.1 to the Registrant's Report on Form 8-K, filed with the Commission on October 16, 2007.
- (10.33) Sublease agreement dated December 23, 2008 between North Coast Bank, a division of American River Bank, and Chicago Title Company, a California Corporation; and lease agreement dated December 23, 2008 between North Coast Bank, a division of American River Bank, and 90 E Street LLC, related to 90 E Street, Santa Rosa, California, incorporated by reference from Exhibit 99.2 and 99.3 to the Registrant's Report on Form 8-K, filed with the Commission on December 24, 2008.
- (14.1) Registrant's Code of Ethics, incorporated by reference from Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2003, filed with the Commission on March 19, 2004.
- (21.1) The Registrant's only subsidiaries are American River Bank and American River Financial.



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- (31.1) Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Certification of Registrant by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*Denotes management contracts, compensatory plans or arrangements.

\*\*Incorporated by reference to Registrant's Registration Statement on Form S-4 (No. 333-36326) filed with the Commission on May 5, 2000.

\*\*\*Incorporated by reference to Registrant's Registration Statement on Form S-4 (No. 333-119085) filed with the Commission on September 17, 2004.

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**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.

August 12, 2009

AMERICAN RIVER BANKSHARES

By: /s/ DAVID T. TABER

David T. Taber  
President and  
Chief Executive Officer

August 12, 2009

AMERICAN RIVER BANKSHARES

By: /s/ MITCHELL A. DERENZO

Mitchell A. Derenzo  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

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| 31.1           | Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   | 53   |
| 31.2           | Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   | 54   |
| 32.1           | Certification of American River Bankshares by its Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | 55   |

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