

AMERICAN RIVER BANKSHARES  
Form 10-Q  
May 10, 2011  
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 March 31, 2011  
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  
(State or other jurisdiction of incorporation  
or organization)

68-0352144  
(I.R.S. Employer Identification No.)

3100 Zinfandel Drive, Suite 450, Rancho  
Cordova, California  
(Address of principal executive offices)

95670  
(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 for such shorter period that the registrant was required to submit and post such files).

Yes  No

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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 – 9,873,437 shares outstanding at May 10, 2011.

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AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED MARCH 31, 2011

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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES  
CONSOLIDATED BALANCE SHEET  
(Unaudited)

(dollars in thousands)	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 33,678	\$ 31,871
Interest-bearing deposits in banks	2,248	2,248
Investment securities:		
Available-for-sale (amortized cost: 2011--\$157,031; 2010--\$151,667)	160,092	154,515
Held-to-maturity (fair value: 2011--\$5,762; 2010--\$6,472)	5,486	6,149
Loans and leases, less allowance for loan and lease losses of \$7,362 at March 31, 2011 and \$7,585 at December 31, 2010	325,647	338,533
Premises and equipment, net	2,057	2,026
Federal Home Loan Bank stock	3,348	3,486
Goodwill and other intangible assets	16,668	16,723
Other real estate owned	3,742	2,696
Accrued interest receivable and other assets	20,374	20,693
	\$ 573,340	\$ 578,940
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing	\$ 130,152	\$ 126,636
Interest-bearing	335,756	338,486
Total deposits	465,908	465,122
Short-term borrowings	7,000	7,000
Long-term borrowings	5,000	10,000
Accrued interest payable and other liabilities	5,482	7,274
Total liabilities	483,390	489,396
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none outstanding		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding – 9,874,867 shares at March 31, 2011 and December 31, 2010	71,886	71,814
Retained earnings	16,227	16,021
Accumulated other comprehensive income, net of taxes	1,837	1,709

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Total shareholders' equity	89,950	89,544
	\$ 573,340	\$ 578,940

See Notes to Unaudited Consolidated Financial Statements

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AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)

(dollars in thousands, except per share data)

For the three months ended March 31,

	2011	2010
<b>Interest income:</b>		
Interest and fees on loans	\$4,997	\$5,837
Interest on deposits in banks	6	—
<b>Interest and dividends on investment securities:</b>		
Taxable	801	708
Exempt from Federal income taxes	150	169
<b>Total interest income</b>	<b>5,954</b>	<b>6,714</b>
<b>Interest expense:</b>		
Interest on deposits	631	798
Interest on borrowings	94	144
<b>Total interest expense</b>	<b>725</b>	<b>942</b>
<b>Net interest income</b>	<b>5,229</b>	<b>5,772</b>
<b>Provision for loan and lease losses</b>	<b>1,375</b>	<b>1,641</b>
<b>Net interest income after provision for loan and lease losses</b>	<b>3,854</b>	<b>4,131</b>
<b>Noninterest income:</b>		
Service charges on deposit accounts	197	233
Gain on sale of securities	2	2
Other noninterest income	234	226
<b>Total noninterest income</b>	<b>433</b>	<b>461</b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	2,080	1,994
Occupancy	278	331
Furniture and equipment	187	198
Federal Deposit Insurance Corporation assessments	298	319
Other expense	1,208	1,343
<b>Total noninterest expense</b>	<b>4,051</b>	<b>4,185</b>
<b>Income before provision for income taxes</b>	<b>236</b>	<b>407</b>
<b>Provision for income taxes</b>	<b>30</b>	<b>101</b>
<b>Net income</b>	<b>\$206</b>	<b>\$306</b>
<b>Basic earnings per share</b>	<b>\$0.02</b>	<b>\$0.03</b>
<b>Diluted earnings per share</b>	<b>\$0.02</b>	<b>\$0.03</b>

Cash dividends per share	\$—	\$—
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See notes to Unaudited Consolidated Financial Statements

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

(dollars in thousands)	Common Stock		Retained Earnings	Accumulated	Total Shareholders' Equity	Total Comprehensive Income
	Shares	Amount		Other Comprehensive Income		
Balance, January 1, 2010	9,845,533	\$ 71,578	\$ 15,545	\$ 222	\$ 87,345	
Comprehensive income:						
Net income			476		476	\$ 476
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				1,487	1,487	1,487
Total comprehensive income						\$ 1,963
Restricted stock awarded and related compensation expense	29,334	47			47	
Stock option compensation expense		189			189	
Balance, December 31, 2010	9,874,867	71,814	16,021	1,709	89,544	
Comprehensive income:						
Net income			206		206	\$ 206
Other comprehensive income, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				128	128	128
Total comprehensive income						\$ 334
Restricted stock compensation expense		28			28	
Stock option compensation expense		44			44	
Balance, March 31, 2011	9,874,867	\$ 71,886	\$ 16,227	\$ 1,837	\$ 89,950	

See Notes to Unaudited Consolidated Financial Statements





AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

(dollars in thousands)

For the three months ended March 31,

	2011	2010
Cash flows from operating activities:		
Net income	\$206	\$306
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	1,375	1,641
Decrease in deferred loan origination fees, net	(23 )	(57 )
Depreciation and amortization	187	210
Gain on sale and call of investment securities	(2 )	(2 )
Amortization of investment security premiums and discounts, net	818	510
Credit to accounts receivable servicing receivable allowance for losses	—	(4 )
Increase in cash surrender values of life insurance policies	(68 )	(59 )
Stock based compensation expense	72	55
Loss on sale and write-down of other real estate owned	28	248
Decrease in accrued interest receivable and other assets	301	3,050
Decrease in accrued interest payable and other liabilities	(1,792 )	(1,494 )
Net cash provided by operating activities	1,102	4,404
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	—	9
Proceeds from matured and called available-for-sale investment securities	602	1,370
Purchases of available-for-sale investment securities	(13,141 )	(22,329 )
Proceeds from principal repayments for available-for-sale investment securities	6,345	4,152
Proceeds from principal repayments for held-to-maturity investment securities	677	1,851
Net increase in interest-bearing deposits in banks	—	—
Net decrease in loans	9,935	10,248
Proceeds from sale of other real estate	526	688
Net decrease in FHLB stock	138	—
Net decrease in accounts receivable servicing receivables	—	40
Purchases of equipment	(163 )	(65 )
Net cash provided by (used in) investing activities	4,919	(4,036 )

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

(dollars in thousands)

For the three months ended March 31,

	2011	2010
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	\$7,980	\$4,066
Net decrease in time deposits	(7,194 )	(4,677 )
Net decrease in short-term borrowings	—	(5,000 )
Net decrease in long-term borrowings	(5,000 )	(5,000 )
Net cash used in financing activities	\$(4,214 )	\$(10,611 )
Increase (decrease) in cash and cash equivalents	1,807	(10,243 )
Cash and cash equivalents at beginning of year	31,871	58,493
Cash and cash equivalents at end of period	\$33,678	\$48,250

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2011

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 March 31, 2011 and December 31, 2010, and the results of its operations and its cash flows for the three-month periods ended March 31, 2011 and 2010 and its statement of changes in shareholders’ equity for the year ended December 31, 2010 and the three months ended March 31, 2011 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 2010 annual report on Form 10-K. The results of operations for the three-month period ended March 31, 2011 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 office of American River Bank, all branch offices 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 branch offices 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

Equity Plans

On March 17, 2010, the Board of Directors adopted the 2010 Equity Incentive Plan (the “2010 Plan”). The 2010 Plan was approved by the Company’s shareholders on May 20, 2010. In 2000, the Board of Directors adopted and the Company’s shareholders approved a stock option plan (the “2000 Plan”), under which 379,571 options remain outstanding at March 31, 2011. The total number of authorized shares that remain available for issuance under the 2010 Plan is 1,447,495. The 2010 Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock; restricted performance stock; unrestricted Company stock; and performance units. Awards granted under the 2000 Plan were either incentive stock options or nonqualified stock options. Under the 2010 Plan, the awards may be granted to employees and directors under incentive and nonstatutory agreements and other awards agreements. The 2010 Plan and the 2000 Plan (collectively the “Plans”) require that the option price may not be less than the fair market value of the stock at the date the option is granted. The option awards under the Plans expire on dates determined by the Board of Directors, but not later than ten years from the date of award. 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 option awards under the Plans are

exercisable until their expiration, however, no new options will be awarded under the 2000 Plan. New shares are issued upon exercise of an option.

During the third quarter of 2010, the Company awarded 29,334 shares of restricted common stock under the Company's 2010 Equity Incentive Plan to certain employees and to directors. Grant date fair value is determined by the market price of the Company's common stock on the date of grant. The aggregate value of these shares at the grant date amounts to approximately \$205,000 and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock granted pursuant to such agreements vest in increments over one to five years from the date of grant. The shares awarded to employees and directors under the restricted stock agreements vest on the applicable vesting dates only to the extent the recipient of the shares is then an employee or a director of the Company or one of its subsidiaries, and each recipient will forfeit all of the shares that have not vested on the date his or her employment or service is terminated. New shares are issued upon vesting of the restricted common stock.

### Equity Compensation

For the three-month periods ended March 31, 2011 and 2010, the compensation cost recognized for equity compensation was \$72,000 and \$55,000, respectively. The recognized tax benefit for equity compensation expense was \$20,000 and \$10,000, for the three-month periods ended March 31, 2011 and 2010, respectively.

At March 31, 2011, the total compensation cost related to nonvested stock option awards not yet recorded is expected to be \$140,000. This amount will be recognized over the next four years and the weighted average period of recognizing these costs is expected to be 1.5 years. At March 31, 2011, the total compensation cost related to restricted stock awards not yet recorded is expected to be \$130,000. This amount will be recognized over the next four and a half years and the weighted average period of recognizing these costs is expected to be 1.4 years.

### Equity Plans Activity

#### Stock Options

There were no stock options awarded during the three-month periods ended March 31, 2011 and 2010. A summary of option activity under the Plans as of March 31, 2011 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$000)
Outstanding at January 1, 2011	379,571	\$17.18	4.7 years	\$—
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	—	—	—	—
Outstanding at March 31, 2011	379,571	\$17.18	4.4 years	\$—
Exercisable at March 31, 2011	306,943	\$18.10	4.8 years	\$—

#### Restricted Stock

There was no restricted stock awarded during the three month periods ended March 31, 2011 or 2010. There were no restricted awards that were fully vested, nor were there any awards that had been forfeited during the same period and the intrinsic value at March 31, 2011 was \$194,000.

Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three month periods ended March 31, 2011 or 2010.

The intrinsic value used for stock options and restricted stock was derived from the market price of the Company's common stock of \$6.60 as of March 31, 2011.

### 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 \$41,419,000 and standby letters of credit of approximately \$10,121,000 at March 31, 2011. Such loan commitments relate primarily to real estate construction loans, 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 2011 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 March 31, 2011 or March 31, 2010.

### 4. EARNINGS PER SHARE COMPUTATION

Basic earnings per share is computed by dividing net income by the weighted average common shares outstanding for the period (9,845,533 shares for the three-month period ended March 31, 2011 and 2010). Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options or restricted stock, result in the issuance of common stock. 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 stock based awards (8,122 shares for the three-month period ended March 31, 2011 and zero shares for the three-month period ended March 31, 2010). Earnings per share is retroactively adjusted for stock dividends and stock splits for all periods presented.

### 5. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is comprised of net income plus other comprehensive income. Other comprehensive income, net of taxes, was comprised of the unrealized gains on available-for-sale investment securities of \$128,000 for the three-month period ended March 31, 2011 and \$966,000 for the three-month period ended March 31, 2010. Comprehensive income was \$334,000 for the three-month period ended March 31, 2011 and \$1,272,000 for the three-month period ended March 31, 2010. Reclassification adjustments resulting from gain or loss on sale of investment securities were not significant for all periods presented.

### 6. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at March 31, 2011 and December 31, 2010 consisted of the following (dollars in thousands):

#### Available-for-Sale

	March 31, 2011			Estimated
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Debt securities:				



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Mortgage-backed securities	\$139,337	\$3,327	\$(469 )	\$142,195
Obligations of states and political subdivisions	17,617	303	(112 )	17,808
Equity securities:				
Corporate stock	77	17	(5 )	89
	\$157,031	\$3,647	\$(586 )	\$160,092

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	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$135,915	\$3,156	\$(427 )	\$138,644
Obligations of states and political subdivisions	15,675	242	(125 )	15,792
Equity securities:				
Corporate stock	77	8	(6 )	79
	\$151,667	\$3,406	\$(558 )	\$154,515

Net unrealized gains on available-for-sale investment securities totaling \$3,061,000 were recorded, net of \$1,224,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at March 31, 2011. Proceeds and gross realized gains from the call of available-for-sale investment securities for the period ended March 31, 2011 totaled \$287,000 and \$2,000, respectively. There were no sales or transfers of available-for-sale investment securities for the period ended March 31, 2011.

Net unrealized gains on available-for-sale investment securities totaling \$1,980,000 were recorded, net of \$792,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at March 31, 2010. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the period ended March 31, 2010 totaled \$314,000 and \$2,000, respectively. There were no transfers of available-for-sale investment securities for the period ended March 31, 2010.

#### Held-to-Maturity

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 5,486	\$ 276	\$ —	\$ 5,762
	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
Mortgage-backed securities	\$ 6,149	\$ 323	\$ —	\$ 6,472

There were no sales of held-to-maturity investment securities for the three months ended March 31, 2011 and the year ended December 31, 2010 and no transfers of held-to-maturity investment securities for the periods ended March 31, 2011 and December 31, 2010.

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Investment securities with unrealized losses at March 31, 2011 and December 31, 2010 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

	2011		2011		Total	
	Less than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale						
Debt securities:						
Mortgage-backed securities	\$ 22,534	\$ (469 )			\$ 22,534	\$ (469 )
Obligations of states and political subdivisions	4,304	(72 )	\$ 840	\$ (40 )	5,144	(112 )
Equity Securities:						
Corporate stock	\$ 26,838	\$ (541 )	6	(5 )	6	(5 )
			\$ 846	\$ (45 )	\$ 27,684	\$ (586 )

	2010		2010		Total	
	Less than 12 Months Fair	Unrealized	12 Months or More Fair	Unrealized	Fair	