

AMERICAN RIVER BANKSHARES  
Form 10-Q  
August 09, 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 June 30, 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

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 – 9,872,007 shares outstanding at August 8, 2011.

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AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED JUNE 30, 2011

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| 101.SCH                  | XBRL Taxonomy Extension Schema  |        |
| 101.CAL                  | XBRL Taxonomy Extension Calculation   |        |
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| 101.LAB                  | XBRL Taxonomy Extension Label   |        |
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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements.

AMERICAN RIVER BANKSHARES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| (dollars in thousands)  | June 30,<br>2011 | December 31,<br>2010 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Cash and due from banks   | \$ 35,048        | \$ 31,871            |
| Interest-bearing deposits in banks  | 2,249            | 2,248                |
| Investment securities:  |                  |                      |
| Available-for-sale (amortized cost: 2011--\$161,052;<br>2010--\$151,667)  | 165,747          | 154,515              |
| Held-to-maturity (fair value: 2011--\$5,248; 2010--\$6,472)   | 4,983            | 6,149                |
| Loans and leases, less allowance for loan and lease losses of<br>\$7,887 at June 30, 2011 and \$7,585 at December 31, 2010  | 316,861          | 338,533              |
| Premises and equipment, net   | 2,074            | 2,026                |
| Federal Home Loan Bank stock  | 3,204            | 3,486                |
| Goodwill and other intangible assets  | 16,613           | 16,723               |
| Other real estate owned   | 3,224            | 2,696                |
| Accrued interest receivable and other assets  | 19,722           | 20,693               |
|   | \$ 569,725       | \$ 578,940           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                  |                      |
| Deposits:   |                  |                      |
| Noninterest bearing   | \$ 123,550       | \$ 126,636           |
| Interest-bearing  | 331,713          | 338,486              |
| Total deposits  | 455,263          | 465,122              |
| Short-term borrowings   | 7,000            | 7,000                |
| Long-term borrowings  | 10,000           | 10,000               |
| Accrued interest payable and other liabilities  | 6,275            | 7,274                |
| Total liabilities   | 478,538          | 489,396              |
| Commitments and contingencies   |                  |                      |
| Shareholders' equity:   |                  |                      |
| Preferred stock, no par value; 20,000,000 shares authorized;<br>none outstanding  |                  |                      |
| Common stock, no par value; 20,000,000 shares authorized;<br>issued and outstanding -9,872,007 shares at June 30, 2011 and<br>9,874,867 shares at December 31, 2010 | 71,922           | 71,814               |

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|  |            |            |
|--|------------|------------|
| Retained earnings                                    | 16,448     | 16,021     |
| Accumulated other comprehensive income, net of taxes | 2,817      | 1,709      |
| Total shareholders' equity                           | 91,187     | 89,544     |
|  | \$ 569,725 | \$ 578,940 |

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)

| (dollars in thousands, except per share data)<br>For the periods ended June 30, | Three months |          | Six months |           |
|---|--------------|----------|------------|-----------|
|   | 2011         | 2010     | 2011       | 2010      |
| Interest income:  |              |          |            |           |
| Interest and fees on loans  | \$ 4,845     | \$ 5,580 | \$ 9,842   | \$ 11,417 |
| Interest on deposits in banks   | 5            | —        | 11         | —         |
| Interest and dividends on investment securities:                                |              |          |            |           |
| Taxable   | 1,351        | 726      | 2,152      | 1,434     |
| Exempt from Federal income taxes  | 166          | 162      | 316        | 331       |
| Dividends   | —            | 5        | —          | 5         |
| Total interest income   | 6,367        | 6,473    | 12,321     | 13,187    |
| Interest expense:   |              |          |            |           |
| Interest on deposits  | 592          | 761      | 1,223      | 1,559     |
| Interest on borrowings  | 86           | 130      | 180        | 274       |
| Total interest expense  | 678          | 891      | 1,403      | 1,833     |
| Net interest income   | 5,689        | 5,582    | 10,918     | 11,354    |
| Provision for loan and lease losses   | 1,700        | 2,011    | 3,075      | 3,652     |
| Net interest income after provision for loan and lease losses                   | 3,989        | 3,571    | 7,843      | 7,702     |
| Noninterest income:   |              |          |            |           |
| Service charges on deposit accounts   | 187          | 232      | 383        | 465       |
| Gain (loss) on sale of securities   | 25           | (7 )     | 27         | (5 )      |
| Other noninterest income  | 242          | 235      | 477        | 461       |
| Total noninterest income  | 454          | 460      | 887        | 921       |
| Noninterest expense:  |              |          |            |           |
| Salaries and employee benefits  | 2,043        | 1,980    | 4,123      | 3,974     |
| Occupancy   | 290          | 334      | 568        | 665       |
| Furniture and equipment   | 174          | 179      | 361        | 377       |
| Federal Deposit Insurance Corporation assessments                               | 242          | 359      | 540        | 678       |
| Other expense   | 1,448        | 1,203    | 2,656      | 2,546     |
| Total noninterest expense   | 4,197        | 4,055    | 8,248      | 8,240     |
| Income (loss) before provision for (benefit from) income taxes                  | 246          | (24 )    | 482        | 383       |
| Provision for (benefit from) income taxes                                       | 25           | (78 )    | 55         | 23        |
| Net income  | \$ 221       | \$ 54    | \$ 427     | \$ 360    |

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|                            |         |         |         |         |
|----------------------------|---------|---------|---------|---------|
| Basic earnings per share   | \$ 0.02 | \$ 0.01 | \$ 0.04 | \$ 0.04 |
| Diluted earnings per share | \$ 0.02 | \$ 0.01 | \$ 0.04 | \$ 0.04 |
| Cash dividends per share   | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |

See notes to Unaudited Consolidated Financial Statements

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

| (dollars in thousands)   | Common Stock |           | Retained  | Accumulated Other Comprehensive | Total Shareholders' | Total Comprehensive |
|--|--------------|-----------|-----------|---------------------------------|---------------------|---------------------|
|  | Shares       | Amount    | Earnings  | Income                          | Equity              | 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   |              |           | 427       |                                 | 427                 | \$ 427              |
| Other comprehensive income, net of   |              |           |           |                                 |                     |                     |

|   |           |           |           |          |           |          |
|---|-----------|-----------|-----------|----------|-----------|----------|
| tax:  |           |           |           |          |           |          |
| Net change in<br>unrealized gains<br>on<br>available-for-sale<br>investment<br>securities |           |           |           | 1,108    | 1,108     | 1,108    |
| Total<br>comprehensive<br>income  |           |           |           |          |           | \$ 1,535 |
| Forfeiture of<br>restricted stock   | (2,860 )  |           |           |          |           |          |
| Restricted stock<br>compensation<br>expense   |           |           | 39        |          | 39        |          |
| Stock option<br>compensation<br>expense   |           |           | 69        |          | 69        |          |
| Balance, June 30,<br>2011   | 9,872,007 | \$ 71,922 | \$ 16,448 | \$ 2,817 | \$ 91,187 |          |

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

(dollars in thousands)

| For the six months ended June 30,   | 2011    |   | 2010    |
|---|---------|---|---------|
| Cash flows from operating activities:   |         |   |         |
| Net income  | \$ 427  |   | \$ 360  |
| Adjustments to reconcile net income to net cash provided by operating activities: |         |   |         |
| Provision for loan and lease losses   | 3,075   |   | 3,652   |
| Decrease in deferred loan origination fees, net                                   | (67     | ) | (97     |
| Depreciation and amortization   | 373     |   | 420     |
| (Gain) loss on sale and call of investment securities                             | (27     | ) | 5       |
| Amortization of investment security premiums and discounts, net                   | 1,122   |   | 1,131   |
| Increase in cash surrender value of life insurance policies                       | (137    | ) | (127    |
| Stock based compensation expense  | 108     |   | 110     |
| Loss on sale and write-down of other real estate owned                            | 260     |   | 405     |
| Decrease in accrued interest receivable and other assets                          | 371     |   | 3,518   |
| Decrease in accrued interest payable and other liabilities                        | (999    | ) | (1,628  |
| Net cash provided by operating activities   | 4,506   |   | 7,749   |
| Cash flows from investing activities:   |         |   |         |
| Proceeds from the sale of available-for-sale investment securities                | 632     |   | 3,451   |
| Proceeds from matured and called available-for-sale investment securities         | 1,275   |   | 3,120   |
| Purchases of available-for-sale investment securities                             | (24,557 | ) | (47,185 |
| Proceeds from principal repayments for available-for-sale investment securities   | 12,156  |   | 7,896   |
| Proceeds from principal repayments for held-to-maturity investment securities     | 1,179   |   | 3,967   |
| Net increase in interest-bearing deposits in banks                                | (1      | ) |         |
| Net decrease in loans   | 17,197  |   | 16,740  |
| Proceeds from sale of other real estate   | 678     |   | 1,502   |
| Purchases of equipment  | (311    | ) | (151    |
| Net decrease in FHLB stock  | 282     |   | 146     |
| Net cash provided by (used in) investing activities                               | 8,530   |   | (10,514 |

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

(dollars in thousands)

| For the six months ended June 30,  | 2011        | 2010      |
|--|-------------|-----------|
| Cash flows from financing activities:                                    |             |           |
| Net (decrease) increase in demand, interest-bearing and savings deposits | \$ (1,868 ) | \$ 9,219  |
| Net decrease in time deposits  | (7,991 )    | (15,366 ) |
| Net decrease in short-term borrowings                                    | —           | (5,000 )  |
| Net decrease in long-term borrowings                                     | —           | (5,000 )  |
| Payment of cash dividends  | —           | —         |
| Exercise of stock options  | —           | —         |
| Tax benefit from exercise of stock options                               | —           | —         |
| Net cash used in financing activities                                    | (9,859 )    | (16,147 ) |
| Increase (decrease) increase in cash and cash equivalents                | 3,177       | (18,912 ) |
| Cash and cash equivalents at beginning of year                           | 31,871      | 58,493    |
| Cash and cash equivalents at end of period                               | \$ 35,048   | \$ 39,581 |

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 June 30, 2011 and December 31, 2010, and the results of its operations and its cash flows for six-month periods ended June 30, 2011 and 2010 and its statement of changes in shareholders' equity for the year ended December 31, 2010 and the six months ended June 30, 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 and six-month periods ended June 30, 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, the valuation of goodwill 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 374,280 options remain outstanding at June 30, 2011. The total number of authorized shares that remain available for issuance under the 2010 Plan is 1,450,355. 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. There have been no restricted stock or stock options awarded in 2011.

### Equity Compensation

For the three-month periods ended June 30, 2011 and 2010, the compensation cost recognized for equity compensation was \$36,000 and \$55,000, respectively. The recognized tax benefit for equity compensation expense was \$9,000 and \$10,000, for the three-month periods ended June 30, 2011 and 2010, respectively. For the six-month periods ended June 30, 2011 and 2010, the compensation cost recognized for equity compensation was \$108,000 and \$110,000, respectively. The recognized tax benefit for equity compensation expense was \$29,000 and \$20,000, for the six-month periods ended June 30, 2011 and 2010, respectively.

At June 30, 2011, the total compensation cost related to nonvested stock option awards not yet recorded is \$115,000. This amount will be recognized over the next 3.75 years and the weighted average period of recognizing these costs is expected to be 1.3 years. At June 30, 2011, the total compensation cost related to restricted stock awards not yet recorded is \$100,000. This amount will be recognized over the next 4.25 years and the weighted average period of recognizing these costs is expected to be 1.2 years.

### Equity Plans Activity

#### Stock Options

There were no stock options awarded during the three and six-month periods ended June 30, 2011 and 2010. A summary of option activity under the Plans as of June 30, 2011 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<br>Term | Aggregate<br>Intrinsic Value<br>(\$000) |
|--------------------------------|----------|---------------------------------------|---|---|
| Outstanding at January 1, 2011 | 379,571  | \$ 17.18                              | 5.5 years   | \$ —                                    |
| Granted                        | —        | —                                     | —   | —                                       |
| Exercised                      | —        | —                                     | —   | —                                       |
| Cancelled                      | (5,291 ) | 11.33                                 | —   | —                                       |
| Outstanding at June 30, 2011   | 374,280  | \$ 17.18                              | 5.0 years   | \$ —                                    |
| Exercisable at June 30, 2011   | 307,258  | \$ 18.09                              | 4.5 years   | \$ —                                    |

#### Restricted Stock

There was no restricted stock awarded during the three and six-month periods ended June 30, 2011 or 2010. There were no restricted awards that were fully vested during the same period. There were 2,860 awards that had been forfeited during the three and six-month periods ended June 30, 2011 and zero during the three and six-month periods ended June 30, 2010. The intrinsic value of unvested restricted stock at June 30, 2011 was \$161,000.

#### Other Equity Awards

There were no stock appreciation rights; restricted performance stock; unrestricted Company stock; or performance units awarded during the three or six month periods ended June 30, 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 \$6.09 as of June 30, 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 \$38,841,000 and standby letters of credit of approximately \$9,971,000 at June 30, 2011. Such loans 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 June 30, 2011 or June 30, 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 and six-month periods ended June 30, 2011, and 9,845,533 for the three-month and six-month periods ended June 30, 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. There were 11,960 and 10,541, respectively, diluted shares for the three-month and six-month periods ended June 30, 2011 and zero diluted shares for the three-month and six-month periods ended June 30, 2010. Earnings per share is retroactively adjusted for stock dividends and stock splits, if applicable, 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 \$980,000 and \$1,108,000, respectively, for the three-month and six-month periods ended June 30, 2011 and \$964,000 and \$1,930,000, respectively, for the three-month and six-month periods ended June 30, 2010. Comprehensive income was \$1,201,000 and \$1,535,000, respectively, for the three-month and six-month periods ended June 30, 2011 and \$1,018,000 and \$2,290,000, respectively, for the three-month and six-month periods ended June 30, 2010. Reclassification adjustments resulting from realized gains or loss on sale of investment securities were \$25,000 and \$27,000, respectively, for the three-month and six-month periods ending June 30, 2011 and \$(7,000) and \$(5,000), respectively, for the three three-month and six-month periods ending June 30, 2010.

## 6. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities at June 30, 2011 and December 31, 2010 consisted of the following (dollars in thousands):

## Available-for-Sale

|  | June 30, 2011     |                              |                               |                         |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
| Debt securities:                                 |                   |                              |                               |                         |
| Mortgage-backed securities                       | \$ 140,847        | \$ 4,307                     | \$ (185 )                     | \$ 144,969              |
| Obligations of states and political subdivisions | 20,141            | 582                          | (22 )                         | 20,701                  |
| Equity securities:                               |                   |                              |                               |                         |
| Corporate stock                                  | 64                | 13                           | —                             | 77                      |
|  | \$ 161,052        | \$ 4,902                     | \$ (207 )                     | \$ 165,747              |
|  | December 31, 2010 |                              |                               |                         |
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>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 \$4,695,000 were recorded, net of \$1,878,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at June 30, 2011. Proceeds and gross realized gains from the sale and call of available-for-sale investment securities for the six-month period ended June 30, 2011 totaled \$1,566,000 and \$27,000, respectively. There were no transfers of available-for-sale investment securities for the six-month period ended June 30, 2011.

Net unrealized gains on available-for-sale investment securities totaling \$2,848,000 were recorded, net of \$1,139,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2010. Proceeds and gross realized gains (losses) from the sale and call of available-for-sale investment securities for the six-month period ended June 30, 2010 totaled \$3,843,000 and \$(5,000), respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2010.

## Held-to-Maturity

|                            | June 30, 2011     |                              |                               |                            |
|----------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
|                            | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Debt securities:           |                   |                              |                               |                            |
| Mortgage-backed securities | \$ 4,983          | \$ 265                       | \$ —                          | \$ 5,248                   |

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|                            | December 31, 2010 |                              |                               |                            |
|----------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
|                            | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Debt securities:           |                   |                              |                               |                            |
| Mortgage-backed securities | \$ 6,149          | \$ 323                       | \$ —                          | \$ 6,472                   |

There were no sales or transfers of held-to-maturity investment securities for the periods ended June 30, 2011 and December 31, 2010.

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Investment securities with unrealized losses at June 30, 2011 and December 31, 2010 are summarized and classified according to the duration of the loss period as follows (dollars in thousands):

|  | 2011                |                   | 2010              |                   |            |            |
|--|---------------------|-------------------|-------------------|-------------------|------------|------------|
|  | Less than 12 Months |                   | 12 Months or More |                   | Total      | Unrealized |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value | Losses     |
| Available-for-Sale                               |                     |                   |                   |                   |            |            |
| Debt securities:                                 |                     |                   |                   |                   |            |            |
| Mortgage-backed securities                       | \$ 11,647           | \$ (185 )         |                   |                   | \$ 11,647  | \$ (185 )  |
| Obligations of states and political subdivisions | 3,233               | (18 )             | \$ 582            | \$ (4 )           | 3,815      | (22 )      |
|  | \$ 14,880           | \$ (203 )         | \$ 582            | \$ (4 )           | \$ 15,462  | \$ (207 )  |
|  |                     |                   |                   |                   |            |            |
| Available-for-Sale                               |                     |                   |                   |                   |            |            |
| Debt securities:                                 |                     |                   |                   |                   |            |            |
| Mortgage-backed securities                       | \$ 29,535           | \$ (427 )         |                   |                   | \$ 29,535  | \$ (427 )  |
| Obligations of states and political subdivisions | 5,169               | (125 )            |                   |                   | 5,169      | (125 )     |
| Equity Securities:                               |                     |                   |                   |                   |            |            |
| Corporate stock                                  | 5                   | (2 )              | \$ 5              | \$ (4 )           | 10         | (6 )       |
|  | \$ 34,709           | \$ (554 )         | \$ 5              | \$ (4 )           | \$ 34,714  | \$ (558 )  |

There were no held-to-maturity investment securities with unrealized losses as of June 30, 2011 or December 31, 2010.

At June 30, 2011, the Company held 168 securities of which 11 were in a loss position for less than twelve months and 1 was in a loss position for twelve months or more. Of the 12 securities in a loss position, 6 are mortgage-backed securities and 6 are obligations of states and political subdivisions. At December 31, 2010, the Company held 168 securities of which 29 were in a loss position for less than twelve months and 5 were in a loss position for twelve months or more. Of the 34 securities in a loss position, 15 are mortgage-backed securities, 11 are obligations of states and political subdivisions and 8 are corporate stocks.

The unrealized loss on the Company's investments in mortgage-backed securities and obligations of states and political subdivisions at June 30, 2011 is primarily driven by interest rates. Because the decline in market value is attributable to a change in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be until maturity, management does not consider these investments to be other-than-temporarily impaired.



The amortized cost and estimated fair value of investment securities at June 30, 2011 by contractual maturity are shown below (dollars in thousands).

| Available-for-Sale | Estimated | Held-to-Maturity |
|--------------------|-----------|------------------|
|--------------------|-----------|------------------|