

AMERICAN RIVER BANKSHARES

Form 10-Q

November 04, 2015

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 September 30, 2015
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)

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(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 – 7,343,649 shares outstanding at November 4, 2015.

AMERICAN RIVER BANKSHARES

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FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

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

AMERICAN RIVER BANKSHARES

CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 21,638	\$ 22,449
Interest-bearing deposits in banks	1,000	1,000
Investment securities:		
Available-for-sale, at fair value	266,740	289,064
Held-to-maturity, at amortized cost	674	862
Loans and leases, less allowance for loan and lease losses of \$4,929 at September 30, 2015 and \$5,301 at December 31, 2014	289,774	258,057
Premises and equipment, net	1,435	1,518
Federal Home Loan Bank stock	3,779	3,686
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	3,781	4,647
Bank owned life insurance	14,406	14,167
Accrued interest receivable and other assets	5,646	5,983
	\$ 625,194	\$ 617,754
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 178,038	\$ 155,698
Interest-bearing	343,331	354,995
Total deposits	521,369	510,693
Short-term borrowings	3,500	3,500
Long-term borrowings	7,500	7,500
Accrued interest payable and other liabilities	6,547	6,414
Total liabilities	538,916	528,107
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 – 7,343,649 shares at September 30, 2015 and 8,089,615 shares at December 31, 2014	49,483	57,126

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Retained earnings	32,961	29,150
Accumulated other comprehensive income, net of taxes	3,834	3,371
Total shareholders' equity	86,278	89,647
	\$ 625,194	\$ 617,754

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the periods ended September 30,

Three months		Nine months	
2015	2014	2015	2014

Interest income:

Interest and fees on loans:

Taxable	\$3,319	\$3,348	\$10,140	\$10,320
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Exempt from Federal income taxes	92	7	222	10
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Interest on deposits in banks	2	1	4	3
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Interest and dividends on investment securities:

Taxable	1,633	1,406	4,706	4,084
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Exempt from Federal income taxes	190	198	571	600
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Dividends	—	6	10	12
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Total interest income	5,458	4,966	15,643	15,029
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Interest expense:

Interest on deposits	202	253	624	769
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Interest on borrowings	38	34	108	113
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Total interest expense	240	287	732	882
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Net interest income	5,218	4,679	14,911	14,147
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Provision for loan and lease losses	—	(200)	—	(200)
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Net interest income after provision for
loan and lease losses

5,218	4,879	14,911	14,347
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Noninterest income:

Service charges on deposit accounts	132	129	376	434
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Gain on sale of securities	33	83	251	100
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Income from other real estate owned properties	87	78	248	290
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Other noninterest income	238	230	707	706
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Total noninterest income	490	520	1,582	1,530
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Noninterest expense:

Salaries and employee benefits	2,185	2,242	6,500	6,479
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Occupancy	294	295	888	898
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Furniture and equipment	171	190	527	556
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Federal Deposit Insurance Corporation assessments	83	94	239	288
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Expenses related to other real estate owned	58	34	260	156
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Other expense	641	807	2,246	2,637
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Total noninterest expense	3,432	3,662	10,660	11,014
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Income before provision for income taxes	2,276	1,737	5,833	4,863
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Provision for income taxes	807	613	2,022	1,698
Net income	\$1,469	\$1,124	\$3,811	\$3,165
Basic earnings per share	\$0.20	\$0.14	\$0.50	\$0.39
Diluted earnings per share	\$0.20	\$0.14	\$0.50	\$0.39
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 COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data)

For the periods ended September 30,

	Three months		Nine months	
	2015	2014	2015	2014
Net income	\$1,469	\$1,124	\$3,811	\$3,165
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investment securities arising during the period	769	(844)	1,023	3,472
Deferred tax (expense) benefit	(308)	338	(409)	(1,389)
Unrealized holding gains (losses) on investment securities arising during the period, net of tax	461	(506)	614	2,083
Reclassification adjustment for realized gains included in net income	(33)	(83)	(251)	(100)
Tax effect	13	33	100	40
Realized gains, net of tax	(20)	(50)	(151)	(60)
Total other comprehensive income (loss)	441	(556)	463	2,023
Comprehensive income	\$1,910	\$568	\$4,274	\$5,188

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 Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2014	8,489,247	61,108	24,789	1,123	87,020
Net income			4,361		4,361
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				2,248	2,248
Net restricted stock awarded and related compensation expense	24,830	147			147
Stock option compensation expense		19			19
Retirement of common stock	(424,462)	(4,148)			(4,148)
Balance, December 31, 2014	8,089,615	57,126	29,150	3,371	89,647
Net income			3,811		3,811
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				463	463
Net restricted stock award activity and related compensation expense	45,023	175			175
Stock option compensation expense		25			25
Retirement of common stock	(790,989)	(7,843)			(7,843)
Balance, September 30, 2015	7,343,649	\$49,483	\$32,961	\$ 3,834	\$ 86,278

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

(dollars in thousands)

For the nine months ended September 30,

	2015	2014
Cash flows from operating activities:		
Net income	\$3,811	\$3,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	—	(200)
Decrease in deferred loan origination fees, net	(48)	(53)
Depreciation and amortization	324	339
Gain on sale and call of investment securities	(251)	(100)
Amortization of investment security premiums and discounts, net	2,470	3,562
Increase in cash surrender values of life insurance policies	(239)	(202)
Stock based compensation expense	200	119
Loss (gain) on sale and write-down of other real estate owned	68	(195)
Decrease in accrued interest receivable and other assets	27	257
Increase (decrease) in accrued interest payable and other liabilities	133	(11)
Net cash provided by operating activities	6,495	6,681
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	23,764	11,228
Proceeds from matured available-for-sale investment securities	175	105
Proceeds from called available-for-sale investment securities	—	270
Purchases of available-for-sale investment securities	(41,254)	(45,752)
Proceeds from principal repayments for available-for-sale investment securities	38,193	29,877
Proceeds from principal repayments for held-to-maturity investment securities	188	251
Purchases of bank owned life insurance	—	(1,350)
Net increase in interest-bearing deposits in banks	—	—
Net (increase) decrease in loans	(31,669)	4,150
Proceeds from sale of other real estate	924	1,834
Capitalized additions to other real estate	(126)	(54)
Net increase in FHLB stock	(93)	(438)
Purchases of equipment	(241)	(370)
Net cash used in investing activities	(10,139)	(189)

AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Unaudited)

(dollars in thousands)

For the nine months ended September 30,

	2015	2014
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	\$ 12,200	\$ 31,232
Net decrease in time deposits	(1,524)	(4,527)
Net decrease increase in short-term borrowings	—	(4,500)
Net decrease in long-term borrowings	—	(500)
Cash paid to repurchase common stock	(7,843)	(4,148)
Net cash provided by financing activities	\$2,833	\$17,557
(Decrease) increase in cash and cash equivalents	(811)	24,049
Cash and cash equivalents at beginning of year	22,449	17,948
Cash and cash equivalents at end of period	\$21,638	\$41,997

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

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 September 30, 2015 and December 31, 2014, the results of its operations and statement of comprehensive income for the three-month and nine-month periods ended September 30, 2015 and 2014, its cash flows for the nine-month periods ended September 30, 2015 and 2014 and its statement of changes in shareholders’ equity for the year ended December 31, 2014 and the nine months ended September 30, 2015 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 2014 annual report on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2015 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, impaired loans 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 176,321 options remain outstanding at September 30, 2015. At September 30, 2015, under the 2010 Plan, there were 76,461 stock options and 57,516 restricted shares outstanding and the total number of authorized shares that remain available for issuance was 1,395,985. 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 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 nonqualified option agreements, restricted stock 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 awarded. 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.

The award date fair value of awards is determined by the market price of the Company's common stock on the date of award and is recognized ratably as compensation expense or director expense over the vesting periods. The shares of common stock awarded pursuant to such agreements vest in increments over one to five years from the date of award. 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.

Equity Compensation

For the three-month periods ended September 30, 2015 and 2014, the compensation cost recognized for equity compensation was \$73,000 and \$48,000, respectively. The recognized tax benefit for equity compensation expense was \$25,000 and \$17,000, respectively, for the three-month periods ended September 30, 2015 and 2014. For the nine-month periods ended September 30, 2015 and 2014, the compensation cost recognized for equity compensation was \$200,000 and \$119,000, respectively. The recognized tax benefit for equity compensation expense was \$70,000 and \$42,000, respectively, for the nine-month periods ended September 30, 2015 and 2014.

At September 30, 2015, the total compensation cost related to nonvested stock option awards not yet recorded was \$149,000. This amount will be recognized over the next 4.75 years and the weighted average period of recognizing these costs is expected to be 2.25 years. At September 30, 2015, the total compensation cost related to restricted stock awards not yet recorded was \$424,000. This amount will be recognized over the next 4.75 years and the weighted average period of recognizing these costs is expected to be 1.89 years.

Equity Plans Activity

Stock Options

There were no stock options awarded during the three-month period ended September 30, 2015. There were 26,427 stock options awarded during the nine-month period ended September 30, 2015 at a weighted average exercise price of \$9.56. There were no stock options awarded during the three-month period ended September 30, 2014. There were 32,705 stock options awarded during the nine-month period ended September 30, 2014 at a weighted average exercise price of \$8.85. The weighted average award date fair value of options awarded for the nine-month period ended September 30, 2015 was \$3.24. The weighted average award date fair value of options awarded for the nine-month period ended September 30, 2014 was \$2.44. A summary of option activity under the Plans as of September 30, 2015 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, 2015	271,700	\$ 16.27	3.1 years	\$ 82
Awarded	26,427	9.56	—	—
Exercised	—	—	—	—
Cancelled	45,345	18.17	—	—
Outstanding at September 30, 2015	252,782	\$ 15.23	3.9 years	\$ 120
Vested at September 30, 2015	193,246	\$ 17.16	2.4 years	\$ 80
Non-vested at September 30, 2015	59,536	\$ 8.96	8.9 years	\$ 40

Restricted Stock

There were no shares of restricted stock awarded during the three-month period ended September 30, 2015 and 45,023 shares of restricted stock awarded during the nine-month period ended September 30, 2015. There were no shares of restricted stock awarded during the three-month period ended Se