

AMERICAN RIVER BANKSHARES

Form 10-Q

November 06, 2017

**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, 2017

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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 – 6,377,023 shares outstanding at November 3, 2017.

**AMERICAN RIVER BANKSHARES**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2017**

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31.1 Certifications of Chief Executive Officer pursuant 58

<u>31.2</u>	<u>to Section 302</u> <u>of the</u> <u>Sarbanes-Oxley</u> <u>Act of 2002</u> <u>Certifications of</u> <u>the Chief</u> <u>Financial</u> <u>Officer pursuant</u> 59 <u>to Section 302</u> <u>of the</u> <u>Sarbanes-Oxley</u> <u>Act of 2002</u> <u>Certification of</u> <u>American River</u> <u>Bankshares by</u> <u>its Chief</u> <u>Executive</u> <u>Officer and</u> 60 <u>Chief Financial</u> <u>Officer pursuant</u> <u>to Section 906</u> <u>of the</u> <u>Sarbanes-Oxley</u> <u>Act of 2002</u>
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- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition
- 101.LAB XBRL Taxonomy Extension Label
- 101.PRE XBRL Taxonomy Extension Presentation

**PART I-FINANCIAL INFORMATION****Item 1. Financial Statements.**AMERICAN RIVER BANKSHARES  
CONSOLIDATED BALANCE SHEET

(Unaudited)

(dollars in thousands)	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	\$ 37,233	\$ 27,589
Interest-bearing deposits in banks	1,248	999
Investment securities:		
Available-for-sale, at fair value	249,879	254,020
Held-to-maturity, at amortized cost	404	483
Loans and leases, less allowance for loan and lease losses of \$4,551 at September 30, 2017 and \$4,822 at December 31, 2016	322,238	324,086
Premises and equipment, net	1,226	1,362
Federal Home Loan Bank stock	3,932	3,779
Goodwill and other intangible assets	16,321	16,321
Other real estate owned	961	1,348
Bank owned life insurance	15,043	14,805
Accrued interest receivable and other assets	7,159	6,658
	\$ 655,644	\$ 651,450
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing	\$ 205,938	\$ 201,113
Interest-bearing	345,004	343,693
Total deposits	550,942	544,806
Short-term borrowings	2,000	3,500
Long-term borrowings	13,500	12,000
Accrued interest payable and other liabilities	6,947	7,294
Total liabilities	573,389	567,600
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized; none Outstanding		

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Common stock, no par value; 20,000,000 shares authorized; issued and outstanding – 6,392,570 shares at September 30, 2017 and 6,661,726 shares at December 31, 2016	38,139	42,484
Retained earnings	43,437	40,822
Accumulated other comprehensive income, net of taxes	679	544
Total shareholders' equity	82,255	83,850
	\$ 655,644	\$ 651,450

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	
2017	2016	2017	2016

## Interest income:

## Interest and fees on loans:

Taxable

\$3,496 \$3,617 \$10,384 \$10,424

Exempt from Federal income taxes

110 189 376 534

Interest on deposits in banks

4 2 9 5

## Interest and dividends on investment securities:

Taxable

1,292 1,340 3,978 4,333

Exempt from Federal income taxes

180 156 496 502

Dividends

— — 13 11

Total interest income

5,082 5,304 15,256 15,809

## Interest expense:

Interest on deposits

224 179 621 545

Interest on borrowings

55 44 152 133

Total interest expense

279 223 773 678

Net interest income

4,803 5,081 14,483 15,131

Provision for loan and lease losses

300 (668 ) 300 (668 )

Net interest income after provision for loan and lease losses

4,503 5,749 14,183 15,799

## Noninterest income:

Service charges on deposit accounts

117 124 348 381

Gain on sale, call, or impairment of securities

19 33 161 314

Rental income from other real estate owned

— — — 106

Other noninterest income

241 242 726 715

Total noninterest income

377 399 1,235 1,516

## Noninterest expense:

Salaries and employee benefits

2,102 2,073 6,336 6,334

Occupancy

262 295 793 885

Furniture and equipment

141 165 439 493

Federal Deposit Insurance Corporation assessments

51 77 156 233

Expenses related to other real estate owned

4 (30 ) 36 330

Other expense

752 766 2,350 2,277

Total noninterest expense

3,312 3,346 10,110 10,552

Income before provision for income taxes

1,568 2,802 5,308 6,763

Provision for income taxes

459 989 1,718 2,274



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Net income	\$1,109	\$1,813	\$3,590	\$4,489
Basic earnings per share	\$0.18	\$0.28	\$0.56	\$0.66
Diluted earnings per share	\$0.17	\$0.27	\$0.55	\$0.66
Cash dividends per share	\$0.05	\$0.00	\$0.15	\$0.00

See notes to Unaudited Consolidated Financial Statements

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## 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	
	2017	2016	2017	2016
Net income	\$1,109	\$1,813	\$3,590	\$4,489
Other comprehensive (loss) income:				
(Decrease) increase in net unrealized gains on investment securities	(497 )	(1,306)	376	2,406
Deferred tax benefit (expense)	199	522	(144 )	(963 )
(Decrease) increase in net unrealized gains on investment securities, net of tax	(298 )	(784 )	232	1,443
Reclassification adjustment for realized gains included in net income	(19 )	(33 )	(161 )	(314 )
Tax effect	8	13	64	125
Realized gains, net of tax	(11 )	(20 )	(97 )	(189 )
Total other comprehensive (loss) income	(309 )	(804 )	135	1,254
Comprehensive income	\$800	\$1,009	\$3,725	\$5,743

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
	Shares	Amount		Other Comprehensive Income	
Balance, January 1, 2016	7,343,649	\$49,554	\$34,418	\$ 2,103	\$ 86,075
Net income			4,489		4,489
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				1,254	1,254
Net restricted stock award activity and related compensation expense	28,342	219			219
Stocks option exercised and compensation expense	1,500	43			43
Retirement of common stock	(716,897 )	(7,414 )			(7,414 )
Balance, September 30, 2016	6,656,594	\$42,402	\$38,907	\$ 3,357	\$ 84,666
Balance, January 1, 2017	6,661,726	\$42,484	\$40,822	\$ 544	\$ 83,850
Net income			3,590		3,590
Other comprehensive income, net of tax:					
Net change in unrealized gains on available-for-sale investment securities				135	135
Cash dividends (\$0.15 per share)			(975 )		(975 )
Net restricted stock award activity and related compensation expense	22,032	282			282
Stock options exercised	41,898	351			351
Stock option compensation expense	—	28			28
Retirement of common stock	(333,086 )	(5,006 )			(5,006 )
Balance, September 30, 2017	6,392,570	\$38,139	\$43,437	\$ 679	\$ 82,255

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,

	2017	2016
Cash flows from operating activities:		
Net income	\$3,590	\$4,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	300	(668 )
Increase in deferred loan origination fees, net	5	27
Depreciation and amortization	255	326
Gain on sale, call, and impairment of investment securities, net	(161 )	(314 )
Amortization of investment security premiums and discounts, net	2,447	2,159
Increase in cash surrender values of life insurance policies	(238 )	(239 )
Stock based compensation expense	310	249
(Gain) loss on sale/write-down of other real estate owned	(8 )	207
(Increase) decrease in accrued interest receivable and other assets	(581 )	535
(Decrease) increase in accrued interest payable and other liabilities	(347 )	2,140
Net cash provided by operating activities	5,572	8,911
Cash flows from investing activities:		
Proceeds from the sale of available-for-sale investment securities	31,288	12,656
Proceeds from matured available-for-sale investment securities	1,930	600
Proceeds from called available-for-sale investment securities	145	1,165
Purchases of available-for-sale investment securities	(63,061)	(27,608)
Proceeds from principal repayments for available-for-sale investment securities	31,768	33,749
Proceeds from principal repayments for held-to-maturity investment securities	79	115
Net increase in interest-bearing deposits in banks	(249 )	(249 )
Net decrease (increase) in loans	1,543	(21,873)
Proceeds from sale of other real estate	395	1,005
Net increase in FHLB stock	(153 )	—
Purchases of equipment	(119 )	(178 )
Net cash provided by (used in) investing activities	3,566	(618 )

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## AMERICAN RIVER BANKSHARES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
(Unaudited)

(dollars in thousands)

For the nine months ended September 30,	2017	2016
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	\$8,825	\$17,125
Net decrease in time deposits	(2,689 )	(1,650 )
Net (decrease) increase in short-term borrowings	(1,500 )	1,500
Additions to long-term borrowings	3,500	5,000
Transfers from long-term to short-term borrowings	(2,000 )	(3,500 )
Proceeds from stock option exercise	351	13
Cash dividends paid	(975 )	—
Cash paid to repurchase common stock	(5,006 )	(7,414 )
Net cash provided by financing activities	\$506	\$11,074
Increase in cash and cash equivalents	9,644	19,367
Cash and cash equivalents at beginning of year	27,589	23,727
Cash and cash equivalents at end of period	\$37,233	\$43,094

See Notes to Unaudited Consolidated Financial Statements

AMERICAN RIVER BANKSHARES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

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, 2017 and December 31, 2016, the results of its operations and statement of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016, its cash flows for the nine-month periods ended September 30, 2017 and 2016 and its statement of changes in shareholders’ equity for the nine months ended September 30, 2017 and 2016 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 annual report on Form 10-K for the year ended December 31, 2016. The results of operations for the three-month and nine-month periods ended September 30, 2017 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.

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 54,470 options remain outstanding at September 30, 2017. At September 30, 2017, under the 2010 Plan, there were 51,322 stock options and 79,474 restricted shares outstanding and the total number of authorized shares that remain available for issuance was 1,362,437. 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, 2017 and 2016, the compensation cost recognized for equity compensation was \$109,000 and \$83,000, respectively. The recognized tax benefit for equity compensation expense was \$40,000 and \$29,000, respectively, for the three-month periods ended September 30, 2017 and 2016. For the nine-month periods ended September 30, 2017 and 2016, the compensation cost recognized for equity compensation was \$310,000 and \$249,000, respectively. The recognized tax benefit for equity compensation expense was \$113,000 and \$88,000, respectively, for the nine-month periods ended September 30, 2017 and 2016.

At September 30, 2017, the total compensation cost related to nonvested stock option awards not yet recorded was \$71,000. This amount will be recognized over the next 2.75 years and the weighted average period of recognizing these costs is expected to be 1.4 years. At September 30, 2017, the total compensation cost related to restricted stock awards not yet recorded was \$474,000. This amount will be recognized over the next 4.6 years and the weighted average period of recognizing these costs is expected to be 1.3 years.

***Equity Plans Activity***

**Stock Options**

There were no stock options awarded during the three-month and nine-month periods ended September 30, 2017 or September 30, 2016. A summary of option activity under the Plans as of September 30, 2017 and changes during the period then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted
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