Oak Valley Bancorp
Form 10-Q
May 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-34142

OAK VALLEY BANCORP

(Exact name of registrant as specified in its charter)

California	**26-2326676**

State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification No.

125 N. Third Ave., Oakdale, CA 95361

(Address of principal executive offices)

(209) 848-2265

Issuer s telephone number

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 7,880,780 shares of common stock outstanding as of April 30, 2012.

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March 31, 2012

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PART I FINANCIAL STATEMENTS

Item 1. Consolidated Financial Statements (Unaudited)

OAK VALLEY BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

AT MARCH 31, 2012 (UNAUDITED) AND DECEMBER 31, 2011 (AUDITED)

		March 31, 2012		December 31, 2011
ASSETS				
Cash and due from banks	$	65,337,995	$	73,189,775
Federal funds sold		4,110,000		27,895,000
Cash and cash equivalents		69,447,995		101,084,775
Securities available for sale		105,084,610		89,694,859
Loans, net of allowance for loan loss of $7,792,147 and $8,609,174 at March 31, 2012 and December 31, 2011, respectively		384,218,846		386,958,076
Bank premises and equipment, net		13,293,112		13,499,285
Other real estate owned		0		244,375
Interest receivable and other assets		21,468,068		20,690,288
	$	593,512,631	$	612,171,658
LIABILITIES AND SHAREHOLDERS EQUITY				
Deposits	$	518,727,291	$	536,204,003
Interest payable and other liabilities		3,193,122		2,565,649
Federal Home Loan Bank advances		0		3,000,000
Total liabilities		521,920,413		541,769,652
Commitments and contingencies				
Shareholders equity				
Series B Preferred stock, no par value; $1,000 per share liquidation preference, 10,000,000 shares authorized and 13,500 issued and outstanding at March 31, 2012 and December 31, 2011		13,500,000		13,500,000
Common stock, no par value; 50,000,000 shares authorized, 7,883,780 and 7,718,469 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively		23,562,196		23,453,443
Additional paid-in capital		2,186,111		2,128,700
Retained earnings		29,921,912		28,629,757
Accumulated other comprehensive income, net of tax		2,421,999		2,690,106
Total shareholders equity		71,592,218		70,402,006

	$	593,512,631	$	612,171,658

The accompanying notes are an integral part of these consolidated financial statements.

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OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2012 AND MARCH 31, 2011

	THREE MONTHS ENDED MARCH 31,			
	2012		2011	
INTEREST INCOME				
Interest and fees on loans	$	5,715,043	$	5,941,678
Interest on securities available for sale		833,685		694,075
Interest on federal funds sold		5,067		15,218
Interest on deposits with banks		29,806		16,671
Total interest income		6,583,601		6,667,642
INTEREST EXPENSE				
Deposits		315,217		440,520
FHLB advances		4,707		21,674
Total interest expense		319,924		462,194
Net interest income		6,263,677		6,205,448
PROVISION FOR LOAN LOSSES		300,000		600,000
Net interest income after provision for loan losses		5,963,677		5,605,448
OTHER INCOME				
Service charges on deposits		281,078		258,095
Earnings on cash surrender value of life insurance		105,000		128,298
Mortgage commissions		47,409		9,873
Other		397,739		274,975
Total non-interest income		831,226		671,241
OTHER EXPENSES				
Salaries and employee benefits		2,575,563		2,333,990
Occupancy expenses		750,874		656,530
Data processing fees		277,861		258,635
OREO expenses		20,074		248,778
Regulatory assessments (FDIC & DFI)		117,000		198,000
Other operating expenses		855,392		829,904
Total non-interest expense		4,596,764		4,525,837
Net income before provision for income taxes		2,198,139		1,750,852
PROVISION FOR INCOME TAXES		737,234		585,376
NET INCOME	$	1,460,905	$	1,165,476
Preferred stock dividends and accretion		168,750		210,411
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$	1,292,155	$	955,065
NET INCOME PER COMMON SHARE	$	0.17	$	0.12
NET EARNINGS PER DILUTED COMMON SHARE	$	0.17	$	0.12

The accompanying notes are an integral part of these consolidated financial statements.

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OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2012 AND MARCH 31, 2011

	THREE MONTHS ENDED MARCH 31, 2012	THREE MONTHS ENDED MARCH 31, 2011
Net income	$ 1,460,905	$ 1,165,476
Available for sale securities:		
Gross unrealized (loss) gain arising during the year	(434,031)	201,009
Reclassification adjustment for gains realized in net income	(21,547)	(25,884)
Income tax benefit (expense)	187,471	(72,063)
Other comprehensive (loss) income	(268,107)	103,062
Comprehensive income	$ 1,192,798	$ 1,268,538

The accompanying notes are an integral part of these consolidated financial statements.

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OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2011 AND THE THREE-MONTH PERIOD ENDED MARCH 31, 2012 (UNAUDITED)

	YEAR ENDED DECEMBER 31, 2011 AND THREE MONTHS ENDED MARCH 31, 2012							
	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity
	Shares	Amount	Shares	Amount				
Balances, January 1, 2012	7,702,127	$ 24,003,549	13,500	$ 13,013,945	$ 2,080,218	$ 24,016,466	$ 1,543,554	$ 64,657,732
Stock options exercised	3,037	$ 9,894						$ 9,894
Restricted stock issued	13,305							
Repurchase of Series A preferred stock			(13,500)	$ (13,500,000)				(13,500,000)
Series B preferred stock issued			13,500	13,500,000				13,500,000
Preferred stock accretion				486,055		$ (486,055)		0
Preferred stock dividend payments						(761,249)		(761,249)
Payment to repurchase U.S. Treasury Warrant		(560,000)						(560,000)
Stock based compensation					48,482			48,482
Other comprehensive income							1,146,552	1,146,552
Net income						5,860,595		5,860,595
Balances, December 31, 2011	7,718,469	$ 23,453,443	13,500	$ 13,500,000	$ 2,128,700	$ 28,629,757	$ 2,690,106	$ 70,402,006
Stock options exercised	27,436	$ 108,753						$ 108,753
Tax benefit on stock options exercised					32,842			32,842
Restricted stock issued	137,875							0
Preferred stock dividend payments						(168,750)		(168,750)
Stock based compensation					24,569			24,569
Other comprehensive loss							(268,107)	(268,107)
Net income						1,460,905		1,460,905
Balances, March 31, 2012	7,883,780	$ 23,562,196	13,500	$ 13,500,000	$ 2,186,111	$ 29,921,912	$ 2,421,999	$ 71,592,218

The accompanying notes are an integral part of these consolidated financial statements

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OAK VALLEY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2012 AND MARCH 31, 2011

	THREE MONTHS ENDED MARCH 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,460,905	$ 1,165,476
Adjustments to reconcile net earnings to net cash from operating activities:		
Provision for loan losses	300,000	600,000
Decrease in deferred fees/costs, net	(61,865)	(18,995)
Depreciation	281,490	225,471
Amortization of investment securities, net	38,817	532
Stock based compensation	24,569	12,000
Excess tax benefits from stock-based payment arrangements	(32,842)	0
Gain on sale of premises and equipment	(21,875)	0
OREO write downs and losses/(gain) on sale	(3,548)	219,166
Gain on called available for sale securities	(21,547)	(25,884)
Earnings on cash surrender value of life insurance	(105,000)	(128,298)
Increase in interest payable and other liabilities	627,473	349,490
Increase in interest receivable	(115,485)	(84,647)
Increase in other assets	(470,831)	(7,249)
Net cash from operating activities	1,900,261	2,307,062
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale securities	(21,970,982)	(22,085,657)
Proceeds from maturities, calls, and principal paydowns of securities available for sale	6,108,382	1,881,943
Net decrease in loans	2,501,095	8,842,258
Purchase of FRB Stock	(1,450)	0
Redemption of FHLB stock	135,300	134,000
Proceeds from sale of OREO	247,923	0
Proceeds from sales of premises and equipment	21,875	0
Net purchases of premises and equipment	(75,317)	(78,384)
Net cash used in investing activities	(13,033,174)	(11,305,840)
CASH FLOWS FROM FINANCING ACTIVITIES:		
FHLB payments	(3,000,000)	0
Preferred stock dividend payment	(168,750)	(168,750)
Net (decrease) increase in demand deposits and savings accounts	(17,538,864)	16,102,250
Net increase (decrease) in time deposits	62,152	(7,200,472)
Excess tax benefits from stock-based payment arrangements	32,842	0
Proceeds from sale of common stock and exercise of stock options	108,753	9,894
Net cash (used in) from financing activities	(20,503,867)	8,742,922
NET DECREASE IN CASH AND CASH EQUIVALENTS	(31,636,780)	(255,856)
CASH AND CASH EQUIVALENTS, beginning of period	101,084,775	68,936,916
CASH AND CASH EQUIVALENTS, end of period	$ 69,447,995	$ 68,681,060
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Cash paid during the period for:				
Interest	$	339,172	$	477,548
Income taxes	$	0	$	221,119
NON-CASH INVESTING ACTIVITIES:				
Change in unrealized (loss) gain on available-for-sale securities	$	(455,578)	$	175,125
NON-CASH FINANCING ACTIVITIES:				
Accretion of preferred stock	$	0	$	41,662

The accompanying notes are an integral part of these consolidated financial statements.

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OAK VALLEY BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

On July 3, 2008 (the Effective Date), a bank holding company reorganization was completed whereby Oak Valley Bancorp (the Company) became the parent holding company for Oak Valley Community Bank (the Bank). On the Effective Date, each outstanding share of the Bank was converted into one share of Oak Valley Bancorp and the Bank became a wholly-owned subsidiary of the holding company.

The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (GAAP) and with general practices within the banking industry. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the estimation of compensation expense related to stock options granted to employees and directors, and valuation allowances associated with deferred tax assets, the recognition of which are based on future taxable income.

The interim consolidated financial statements included in this report are unaudited but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the results of a full year s operations. Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on net income or shareholders equity. For further information, refer to the audited consolidated financial statements and footnotes included in the Company s Form 10-K for the year ended December 31, 2011.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04 *Fair Value Measurement* (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The ASU improves the comparability of fair value measurements presented and disclosed in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs) by changing the wording used to describe many of the requirements in U.S GAAP for measuring fair value and disclosure of information. The amendments to this ASU provide explanation on how to measure fair value but do not require any additional fair value measurements and does not establish valuation standards or affect valuation practices outside of financial reporting. The amendments clarify existing fair value measurements and disclosure requirements to include application of the highest and best use and valuation premises concepts; measuring fair value of an instrument classified in a reporting entity s shareholders equity; and disclosures requirements regarding quantitative information about unobservable inputs categorized within Level 3 of the fair value hierarchy. In addition, clarification is provided for measuring the fair value of financial instruments that are managed in a portfolio and the application of premiums and discounts in a fair value measurement. For public entities, ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. There was no significant impact on the Company s financial position or results of operations as a result of adopting this ASU.

In June 2011, the FASB issued ASU No. 2011-05 *Comprehensive Income* (Topic 220) Presentation of Comprehensive Income. The ASU improves the comparability, consistency, and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The amendments to Topic 220, Comprehensive Income, require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Entities are no longer permitted to present components of other comprehensive income as part of the statement of changes in stockholders equity. Any adjustments for items are that reclassified from other comprehensive income to net income are to be presented on the face of the entities financial statement regardless the method of presentation for comprehensive income. The amendments do not change items to be reported in comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor do the amendments change the option to present the components of other comprehensive income either net of related tax effects or before related tax effects. ASU 2011-05 is effective for fiscal years, and interim periods beginning on or after December 15, 2011. In December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The ASU defers indefinitely the requirement to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. The adoption of the ASUs did not have a material impact on the Company s consolidated financial statements.

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In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities.* The update requires an entity to offset, and present as a single net amount, a recognized eligible asset and a recognized eligible liability when it has an unconditional and legally enforceable right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously. The ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The Company is currently in the process of evaluating the ASU but does not expect it will have a material impact on the Company s consolidated financial statements.

NOTE 3 PREFERRED STOCK REPURCHASE AND WARRANT REDEMPTION

In August 2011, The Company repurchased the $13,500,000 of Series A Preferred Stock originally issued to the U.S. Treasury in December 2008 in connection with the Company s participation in the Capital Purchase Program (CPP). The Company simultaneously issued $13,500,000 in Series B Preferred Stock to the U.S. Treasury under the Small Business Lending Funding (SBLF) program. Subsequently, the Company fully redeemed a warrant to purchase 350,346 shares of its Common Stock, at the exercise price of $5.78 per share that the Company had granted to the U.S. Treasury pursuant to the CPP, for a purchase price of $560,000, which settled in September 2011. So long as the preferred stock remains outstanding under SBLF, it will pay quarterly cumulative dividends at a variable rate between 1% and 5% per year for the first 2.5 years depending on growth of our small business loan portfolio. If there is no loan growth after 2.5 years, the dividend rate could increase to 7% and if the preferred stock remains outstanding after 4.5 years, the rate increases to 9%, regardless of loan growth.

NOTE 4 SECURITIES

The amortized cost and estimated fair values of debt securities as of March 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale securities:				
U.S. agencies	$ 59,906,876	2,481,613	$ (125,112)	$ 62,263,377
Collateralized mortgage obligations	10,970,471	636,179		11,606,650
Municipalities	22,180,784	1,370,987	(184,564)	23,367,207
SBA Pools	1,221,868		(599)	1,221,269
Corporate debt	3,898,994		(68,917)	3,830,077
Mutual Fund	2,789,598	15,625	(9,193)	2,796,030
	$ 100,968,591	$ 4,504,404	$ (388,385)	$ 105,084,610

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The following tables detail the gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2012.

	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. agencies	$ 15,172,301	$ (125,112)	$		$ 15,172,301	$ (125,112)
Collateralized mortgage obligations						
Municipalities	7,823,553	(184,564)			7,823,553	(184,564)
SBA Pools	1,216,426	(599)			1,216,426	(599)
Corporate debt	3,830,077	(68,917)			3,830,077	(68,917)
Mutual Fund	990,807	(9,193)			990,807	(9,193)
Total temporarily impaired securities	$ 29,033,164	$ (388,385)	$	$	$ 29,033,164	$ (388,385)

At March 31, 2012, there were no securities in an unrealized loss position for greater than 12 months. Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary. Management has determined that no investment security is other than temporarily impaired. The unrealized losses are due solely to interest rate changes and the Company does not intend to sell the securities and it is not likely that we will be required to sell the securities before the earlier of the forecasted recovery or the maturity of the underlying investment security.

The amortized cost and estimated fair value of debt securities at March 31, 2012, by contractual maturity or call date, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale securities:		
Due in one year or less	$ 11,497,415	$ 11,473,757
Due after one year through five years	12,210,183	13,317,075
Due after five years through ten years	29,938,511	31,102,342
Due after ten years	47,322,482	