ROCKWELL AUTOMATION INC
Form 4
May 10, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
DAVIS DON H JR

(Last) (First) (Middle)

1201 SOUTH SECOND STEET, E-7F19

(Street)

MILWAUKEE, WI 53204

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ROCKWELL AUTOMATION INC [ROK]

3. Date of Earliest Transaction (Month/Day/Year)
05/09/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/09/2006		G	V	600	D	$ 0	82,013.1491 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount o Number o Shares
Employee stock option (right to buy)	$ 27.75							(2)	10/06/2010	Common Stock	116,667
Director stock option (right to buy)	$ 58.54							02/02/2006 (3)	02/02/2015	Common Stock	1,500
Director stock option (right to buy)	$ 65.35							02/01/2007 (3)	02/01/2016	Common Stock	1,500
Common Stock Share Equivalents	(4)							(5)	(5)	Common Stock	96.2868

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DAVIS DON H JR 1201 SOUTH SECOND STEET E-7F19 MILWAUKEE, WI 53204	X			

Signatures

K. A. Balistreri, Attorney-in-Fact for Don H. Davis, Jr.	05/10/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 815 shares are held by the Company to implement restrictions on transfer unless and until certain conditions are met.

(2) The 116,667 shares become exercisable on 10/06/06.

(3) The option vests in three substantially equal annual installments beginning on the date exercisable.

(4) Share equivalents represented by Company stock fund units acquired under the Company's nonqualified savings plan based on information furnished by the Plan Administrator as of 5/1/2006. The number of share equivalents represented by the balance of a participant's Company stock fund account may not exactly equal the number of share equivalents represented by a prior balance plus additions due to variances in the proportion of uninvested cash held in the reference fund used to determine unit values of the Company stock fund under the Plan.

(5) The share equivalents are payable in cash upon retirement or after termination of employment.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Other	991	1,162
Total deferred tax assets	9,998	9,336
Deferred tax liabilities:		
Premises and equipment	(4,729)	(3,420)
Deferred Loan Costs	(2,315)	(2,100)
Unrealized gain on securities available-for-sale	(711)	
Other	(462)	(549)
Total deferred tax liabilities	(8,217)	(6,069)
Net deferred tax assets	$1,781	$3,267

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. INCOME TAXES (Continued)

The expense for income taxes differs from amounts computed by applying the statutory Federal income tax rates to income before income taxes. The significant items comprising these differences consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Income tax expense at Federal statutory rate	$ 6,048	$ 11,124	$ 10,208
Increase (decrease) resulting from:			
State franchise tax expense, net of Federal tax effect	1,122	2,110	1,941
Tax exempt income	(767)	(687)	(647)
Affordable housing tax credits	(1,698)	(1,485)	(1,398)
Other	(837)	(301)	(127)
	$ 3,868	$ 10,761	$ 9,977
Effective tax rate	22.4%	33.9%	34.2%

The Company is subject to federal income tax and income tax of the state of California. Our federal income tax returns for the years ended December 31, 2005, 2006 and 2007 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2004, 2005, 2006 and 2007 are open to audit by the state authorities.

We record interest and penalties related to uncertain tax positions as part of income tax expense. There was ($67) thousand of interest expense recorded as of December 31, 2008. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

10. SUBORDINATED DEBENTURES

Sierra Capital Trust I, (Trust I), Sierra Statutory Trust II, (Trust II) and Sierra Capital Trust III (Trust III), (collectively, the Trusts) were formed by the Company for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. For financial reporting purposes, the Trusts are not consolidated and the Floating Rate Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures) held by the Trusts and issued and guaranteed by the Company are reflected in the Company s consolidated balance sheet in accordance with provisions of FIN 46. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier 1 capital is limited to twenty-five percent of the company s Tier 1 capital on a pro forma basis. At December 31, 2008, $30,000,000 of trust preferred securities qualified as Tier 1 capital.

During the fourth quarter of 2001, Sierra Capital Trust I issued 15,000 Floating Rate Capital Trust Pass-Through Securities (TRUPS), with a liquidation value of $1,000 per security, for gross proceeds of $15,000,000. The entire proceeds of the issuance were invested by the Trust in $15,464,000 of Subordinated Debentures issued by the Company, with identical maturity, repricing and payment terms as the TRUPS. These Subordinated Debentures were redeemed by the Company on December 9, 2006, after which Sierra Capital Trust I was dissolved. The redemption price was par plus accrued and unpaid interest. During the first quarter of 2004, Sierra Statutory Trust II issued 15,000 Floating Rate Capital Trust Pass-Through Securities (TRUPS II), with a liquidation value of $1,000 per security, for gross proceeds of $15,000,000. The entire proceeds of the issuance were invested by Trust II in $15,464,000 of Subordinated Debentures issued by the Company, with identical maturity, repricing and payment terms as the TRUPS II. The Subordinated Debentures, purchased by Trust II, represent the sole assets of the Trust II. Those Subordinated Debentures mature on March 17, 2034, bear a current interest rate of 4.62% (based on 3-month LIBOR plus 2.75%), with repricing and payments due quarterly.

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10. SUBORDINATED DEBENTURES (Continued)

Those Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank, on any March 17th, June 17th, September 17th, and December 17th on or after March 17, 2009. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture.

The TRUPS II are subject to mandatory redemption to the extent of any early redemption of the related Subordinated Debentures and upon maturity of the Subordinated Debentures on March 17, 2034.

The Trust II has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The TRUPS II issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TRUPS II.

During the second quarter of 2006, Sierra Capital Trust III issued 15,000 Floating Rate Capital Trust Pass-Through Securities (TRUPS III), with a liquidation value of $1,000 per security, for gross proceeds of $15,000,000. The entire proceeds of the issuance were invested by Trust III in $15,464,000 of Subordinated Debentures issued by the Company, with identical maturity, repricing and payment terms as the TRUPS III. The Subordinated Debentures, purchased by Trust III, represent the sole assets of the Trust III. Those Subordinated Debentures mature on September 23, 2036, bear a current interest rate of 2.90% (based on 3-month LIBOR plus 1.40%), with repricing and payments due quarterly.

Those Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank, on any March 23rd, June 23rd, September 23rd, and December 23rd after September 23, 2011. The redemption price is par plus accrued and unpaid interest, except in the case of redemption under a special event which is defined in the debenture. The TRUPS III are subject to mandatory redemption to the extent of any early redemption of the related Subordinated Debentures and upon maturity of the Subordinated Debentures on September 23, 2036.

The Trust III has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The TRUPS III issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TRUPS III.

11. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain of its branch facilities and administrative offices under noncancelable operating leases. Rental expense included in occupancy and equipment and other expense totaled $1,057,000, $1,003,000 and $852,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum lease payments on noncancelable operating leases are as follows:

Year Ending December 31,	
2009	$ 1,176,000
2010	1,135,000
2011	890,000
2012	819,000
2013	565,000
Thereafter	3,663,000
	$ 8,248,000

The Company has options to renew its branch facilities and administrative office after the initial leases expire. The renewal options range from one to ten years and are not included in the payments reflected above.

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a specified percentage of their reservable deposits less vault cash. The reserve balances maintained at the Federal Reserve Bank at December 31, 2008 and 2007 were $9,863,000 and $10,883,000, respectively.

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Company s exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and letters of credit as it does for loans included on the balance sheet.

The following financial instruments represent off-balance-sheet credit risk (dollars in thousands):

	December 31,	
	2008	**2007**
Commitments to extend credit	$ 177,230	$ 208,487
Standby letters of credit	$ 11,138	$ 11,269
Commercial and similar letter of credit	$ 10,098	$ 10,714

Commitments to extend credit consist primarily of unfunded single-family residential and commercial real estate construction loans and commercial revolving lines of credit. Construction loans are established under standard underwriting guidelines and policies and are secured by deeds of trust, with disbursements made over the course of construction. Commercial revolving lines of credit have a high degree of industry diversification. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. COMMITMENTS AND CONTINGENCIES (Continued)

cash requirements. Commitments to extend credit are made at both fixed and variable rates of interest. At December 31, 2008, the Company had $16,589,000 in fixed rate commitments and $160,641,000 in variable rate commitments. Standby letters of credit are issued by the Company to guarantee the performance of a customer to a third party and are made at variable rates of interest. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Concentration in Real Estate Lending

At December 31, 2008, in management s judgment, a concentration of loans existed in real estate related loans. At that date, approximately 74% of the Company s loans were real estate related. Although management believes the loans within these concentrations have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Company s primary market areas, in particular, could have an adverse impact on collectability.

Concentration by Geographic Location

The Company grants commercial, real estate mortgage, real estate construction and consumer loans to customers primarily in the South Central San Joaquin Valley of California, specifically Tulare, Fresno, Kern, Kings and Madera counties. The ability of a substantial portion of the Bank s customers to honor their contracts is dependent on the economy in these areas. Although the Bank s loan portfolio is diversified, there is a relationship in this region between the local agricultural economy and the economic performance of loans made to non-agricultural customers.

Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

12. SHAREHOLDERS EQUITY

Share Repurchase Plan

At December 31, 2008, the Company had a stock repurchase plan which was effective July 1, 2003 and has no expiration date. The repurchase program initially provided that up to 250,000 shares of Sierra Bancorp s common stock could be repurchased by the Company from time to time. That amount was supplemented by 250,000 on May, 19, 2005, another 250,000 shares on March 16, 2006, and an additional 500,000 shares on April 19, 2007.

During the year ended December 31, 2008, the company repurchased 89,400 shares at a total cost of $2,080,000, leaving 100,659 shares available for repurchase. Repurchases are generally made in the open market at market prices.

SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. SHAREHOLDERS EQUITY (Continued)

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations is as follows:

	For the Year Ended December 31, 2008	2007	2006
Basic Earnings Per Share			
Net income (dollars in thousands)	$ 13,413	$ 21,022	$ 19,190
Weighted average shares outstanding	9,607,184	9,700,048	9,766,729
Basic earnings per share	$ 1.40	$ 2.17	$ 1.96
Diluted Earnings Per Share			
Net income (dollars in thousands)	$ 13,413	$ 21,022	$ 19,190
Weighted average shares outstanding	9,607,184	9,700,048	9,766,729
Effect of dilutive stock options	172,473	344,867	507,182
Weighted average diluted shares outstanding	9,779,657	10,044,915	10,273,911
Diluted earnings per share	$ 1.37	$ 2.09	$ 1.87

Stock Options

In June 1998, Bank of the Sierra adopted the 1998 Stock Option Plan (the 1998 Plan) for which shares were reserved for issuance to employees and directors under incentive and nonstatutory agreements. The 1998 Plan was assumed by the Company effective August 10, 2001. The 1998 Plan covered a total of 2,763,684 shares of the Bank s authorized and unissued common stock, of which two-thirds were reserved for the grant of options to full-time salaried officers and employees of the Company. The remaining one-third of the shares were available for grant to anyone eligible to participate in the 1998 Plan, including directors, officers and employees. The 1998 Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at exercise. The options under the 1998 Plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is determined by the Board of Directors and is generally five years. For participants with 10 years of service at the date of grant, options vest immediately. Effective May 23, 2007, the 1998 Plan was terminated and no further options may be granted thereunder, but the options granted and still outstanding under the 1998 Plan are not affected.

On March 15, 2007 the Board of Directors approved and adopted the Company s 2007 Stock Incentive Plan (the 2007 Plan), which was approved by the Company s shareholders on May 23, 2007. The 2007 Plan provides for the issuance of both incentive and nonqualified stock options to officers and employees, and of nonqualified stock options to non-employee directors, of the Company and its subsidiaries. The 2007 Plan also provides for the issuance of restricted stock awards to these same classes of eligible participants, which awards may be granted on such terms and conditions as are established by the Board of Directors or the Compensation Committee in its discretion.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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12. SHAREHOLDERS EQUITY (Continued)

The maximum number of shares to be issued under the 2007 Plan is 1,500,000 shares of the Company s authorized but unissued common stock, subject to adjustment for stock splits and dividends. This maximum number covers both restricted stock awards and stock options to be granted under the 2007 Plan, and is in addition to options covering 437,778 shares currently outstanding under the Company s 1998 Plan at December 31, 2008.

All options under the 2007 Plan must be granted at an exercise price of not less than 100% of the fair market value of the stock on the date of grant, and will be exercisable in installments as provided in individual stock option agreements. In the event of a Change in Control as defined in the 2007 Plan, all outstanding options thereunder shall become exercisable in full (subject to certain notification requirements), and shall terminate if not exercised within a specified period of time, unless such options are assumed by the successor corporation or substitute options are granted. Options will terminate in the event an optionee ceases to be employed by or to serve as a director of the Company or its subsidiaries, and the vested portion thereof must be exercised within 30 days after such cessation of employment or service.

A summary of the activity of the Plan follows (shares in thousands, except exercise price):

	2008			2007		2006	
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	750	$ 14.61		937	$ 12.17	1,143	$ 10.14
Exercised	(186)	$ 8.74		(237)	$ 7.85	(255)	$ 8.86
Granted	87	$ 19.29		78	$ 26.58	94	$ 30.26
Canceled	(59)	$ 14.98		(28)	$ 22.95	(45)	$ 17.32
Outstanding, end of year	592	$ 17.11	3,463	750	$ 14.61	937	$ 12.17
Exercisable, end of year	412	$ 14.32	3,316	562	$ 11.15	726	$ 9.05

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. This amount changes based on changes in the market value of the Company s stock.

	2008	2007	2006
Total fair value of stock options vested	$ 3,316	$ 7,937	$ 14,728
Total intrinsic value of stock options exercised	$ 2,009	$ 4,878	$ 4,945

Cash received from the exercise of 186,303 shares was $1,627,000 for the period ended December 31, 2008 with a related tax benefit of $613,000.

The Company is using the Black Scholes model to value stock options. Pursuant to the provisions of Statement 123 (R), a charge of $209,000 is reflected in the Company s income statement at December 31, 2008, as a pre-tax compensation expense related to outstanding and unvested stock options. The related tax benefit of these options is $88,000 for the year ended December 31, 2008. Unamortized compensation expense on unvested stock options outstanding at December 31, 2008 was $340,000 and will be recognized in future periods over 4.9 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. REGULATORY MATTERS

The Company and the Bank are subject to certain regulatory requirements administered by the Board of Governors of the Federal Reserve System and the FDIC. Failure to meet these minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank meet all their capital adequacy requirements as of December 31, 2008 and 2007. In addition, as of December 31, 2008 and 2007, notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s category. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and leverage capital ratios as set forth below (dollars in thousands).

	2008		2007	
	Capital Amount	Ratio	Capital Amount	Ratio
Leverage Ratio				
Sierra Bancorp and subsidiary	$ 129,735	9.9%	$ 124,135	10.2%
Minimum requirement for Well-Capitalized institution	$ 65,416	5.0%	$ 60,744	5.0%
Minimum regulatory requirement	$ 52,333	4.0%	$ 48,595	4.0%
Bank of the Sierra	$ 118,999	9.1%	$ 123,496	10.2%
Minimum requirement for Well-Capitalized institution	$ 65,256	5.0%	$ 60,693	5.0%
Minimum regulatory requirement	$ 52,205	4.0%	$ 48,555	4.0%
Tier 1 Risk-Based Capital Ratio				
Sierra Bancorp and subsidiary	$ 129,735	12.3%	$ 124,135	12.1%
Minimum requirement for Well-Capitalized institution	$ 63,073	6.0%	$ 61,486	6.0%
Minimum regulatory requirement	$ 42,049	4.0%	$ 40,991	4.0%
Bank of the Sierra	$ 118,999	11.4%	$ 123,496	12.1%
Minimum requirement for Well-Capitalized institution	$ 62,895	6.0%	$ 61,426	6.0%
Minimum regulatory requirement	$ 41,930	4.0%	$ 40,951	4.0%
Total Risk-Based Capital Ratio				
Sierra Bancorp and subsidiary	$ 142,865	13.6%	$ 136,572	13.3%
Minimum requirement for Well-Capitalized institution	$ 105,122	10.0%	$ 102,477	10.0%
Minimum regulatory requirement	$ 84,098	8.0%	$ 81,982	8.0%
Bank of the Sierra	$ 132,129	12.6%	$ 135,933	13.3%
Minimum requirement for Well-Capitalized institution	$ 104,825	10.0%	$ 102,377	10.0%
Minimum regulatory requirement	$ 83,860	8.0%	$ 81,902	8.0%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. REGULATORY MATTERS (Continued)

In March 2005, the Board of Governors of the Federal Reserve System issued a final rule allowing bank holding companies to continue to include trust preferred securities in their Tier 1 capital for regulatory capital purposes. The amount that can be included is limited to 25% of all core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in tier 2 capital. There can be no assurance that the Federal Reserve will not impose further restrictions in the future on the inclusion of trust preferred securities in Tier 1 capital for regulatory capital purposes.

Dividend Restrictions

The Company s ability to pay cash dividends is dependent on dividends paid to it by the Bank, and is also limited by state corporation law. The California General Corporation Law allows a California corporation to pay dividends if the Company s retained earnings equal at least the amount of the proposed dividend. If the Company does not have sufficient retained earnings available for the proposed dividend, it may still pay a dividend to its shareholders if immediately after giving effect to the dividend the sum of the company s assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities.

Dividends from the Bank to the Company are restricted under California law to the lesser of the Bank s retained earnings or the Bank s net income for the latest three fiscal years, less dividends previously declared during that period, or, with the approval of the Department of Financial Institutions, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year, or the net income of the Bank for its current fiscal year. As of December 31, 2008, the maximum amount available for dividend distribution under this restriction was approximately $23,300,000, less dividends actually paid by the Bank to the Company in 2008.

14. BENEFIT PLANS

Salary Continuation Agreements, Directors Retirement and Officer Supplemental Life Insurance Plans

In 2002, the Company entered into salary continuation agreements with certain executive officers and also established a retirement plan for members of the Board of Directors. The plans provide for annual benefits for up to fifteen years after retirement or death. The benefit obligation under these plans totaled $3,348,991 and $2,879,000, and was fully accrued for the years ended December 31, 2008 and 2007, respectively. The expense recognized under these arrangements totaled $518,000, $565,000 and $539,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Death Benefits paid to Directors beneficiaries totaled $0 and $173,000 for each of the years ended December 31, 2008 and 2007, respectively. Benefits paid to former executives of the Company totaled $49,000 for each of the years ended December 31, 2008 and 2007. In addition, the Company provides benefits to former executives of Sierra National Bank under salary continuation plans that were in effect at the time Sierra National Bank was merged into Bank of the Sierra. The benefit obligation under these plans totaled $329,000, $365,000 and $399,000, and was fully accrued for the years ended December 31, 2008, 2007, and 2006, respectively. Benefits paid to former executives of SNB under this plan totaled $67,000, for each of the years ended December 31, 2008, 2007, and 2006, respectively. Certain officers of the Company have supplemental life insurance policies with death benefits available to the officers beneficiaries.

In connection with these plans, the Company purchased, or acquired through the merger, single premium life insurance policies with cash surrender values totaling $26,776,000 and $26,034,000 at December 31, 2008 and 2007, respectively. On the consolidated balance sheet, the cash surrender values are included in other assets.

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14. BENEFIT PLANS (Continued)

Officer and Director Deferred Compensation Plan

The Company has established a deferred compensation plan for certain members of the management group and a deferred fee plan for directors for the purpose of providing the opportunity for participants to defer compensation. The Company bears the costs for the plan s administration and the interest earned on participant deferrals. The related expense was not material for the years ended December 31, 2008, 2007 and 2006. In connection with this plan, life insurance policies with cash surrender values totaling $1,577,000 and $1,961,000 at December 31, 2008 and 2007, respectively, are included on the consolidated balance sheet in other assets.

401(k) Savings Plan

The 401(k) savings plan (the Plan) allows participants to defer, on a pre-tax basis, up to 15% of their salary (subject to Internal Revenue Service limitations) and accumulate tax-deferred earnings as a retirement fund. The Bank may make a discretionary contribution to match a specified percentage of the first 6% of the participants contributions annually. The amount of the matching contribution was 50% in 2008, 75% in 2007 and 75% in 2006, respectively. The matching contribution is discretionary, vests over a period of five years from the participants hire date and is subject to the approval of the Board of Directors. The Company contributed $329,000, $509,000 and $460,000 to the Plan in 2008, 2007 and 2006, respectively.

15. NON-INTEREST REVENUE

The major grouping of non interest revenue on the consolidated income statements includes several specific items: service charges on deposit accounts, gain on sale of loans, credit card fees, checkcard fees, (loss) gain on sales and calls of investment securities available for sale, and increase in cash surrender value of life insurance.

Non-interest revenue also includes one general category of other income of which the following are major components (dollars in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Included in other income:			
Loss on limited partnerships	$ (1,242)	$ (985)	$ (940)
Gain on restricted stock	289		21
Dividends on Equity Investments	584	455	346
Rental income on leases	718	657	594
Other	1,909	1,922	2,164
Total other non-interest revenue	$ 2,258	$ 2,049	$ 2,185

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

16. OTHER OPERATING EXPENSE

Other expense consisted of the following (dollars in thousands):

	Year Ended December 31,		
	2008	2007	2006
Professional fees	$ 2,311	$ 2,393	$ 2,204
Data processing	1,311	1,147	1,427
Advertising and promotion	2,289	1,722	1,022
Deposit services	1,759	2,094	1,811
Stationery and supplies	753	528	598
Telephone and data communication	968	915	825
Loan and credit card processing	1,252	816	1,077
Postage	469	559	380
Other	1,573	1,471	1,222
	$ 12,685	$ 11,645	$ 10,566

17. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. These loans are made with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers (dollars in thousands):

	Year Ended December 31,		
	2008	2007	2006
Balance, beginning of year	$ 1,648	$ 1,372	$ 3,233
Disbursements	23,022	10,150	24,182
Amounts repaid	(21,193)	(9,874)	(26,043)
Balance, end of year	$ 3,477	$ 1,648	$ 1,372
Undisbursed commitments to related parties	$ 841	$ 1,533	$ 1,712

Deposits from related parties held by the Bank at December 31, 2008 and 2007 amounted to $4,362,000 and $4,002,000 respectively.

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

18. OTHER COMPREHENSIVE INCOME

Other comprehensive income consisted of the following (dollars in thousands):

	Before Tax	Tax Expense	After Tax
For the Year Ended December 31, 2008			
Other comprehensive income:			
Unrealized holding gains	$ 2,119	$ (891)	$ 1,228
Less: reclassification adjustment for net realized gains included in net income	58	(24)	34
Total other comprehensive income	$ 2,061	$ (867)	$ 1,194
For the Year Ended December 31, 2007			
Other comprehensive income:			
Unrealized holding gains	$ 2,504	$ (1,052)	$ 1,452
Less: reclassification adjustment for net realized gains included in net income	14	(6)	8
Total other comprehensive income	$ 2,490	$ (1,046)	$ 1,444
For the Year Ended December 31, 2006			
Other comprehensive income:			
Unrealized holding gains	$ 274	$ (88)	$ 186
Less: reclassification adjustment for net realized gains included in net income	9	(4)	5
Total other comprehensive income	$ 265	$ (84)	$ 181

19. FAIR VALUE

FAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair values for each category of financial asst noted below:

Securities: The fair values of trading securities and securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities.

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

19. FAIR VALUE (Continued)

Loans held for sale: Since loans designated by the Company as available-for-sale are typically sold shortly after making the decision to sell them, realized gains or losses are usually recognized within the same period and fluctuations in fair values are thus not relevant for reporting purposes. If available for sale loans exist on our books as of a reporting date, the fair value of those loans is determined using quoted secondary-market prices.

Impaired loans: A specific loss allowance is created for impaired loans, representing the difference between the face value of the loan and either its current appraised value less estimated disposition costs, or its net present value as determined by a discounted cash flow analysis.

Foreclosed assets: Repossessed real estate (OREO) and other assets are acquired at fair value, which is the appraised value less expected selling costs for OREO and some other assets such as mobile homes, and estimated sales proceeds as determined by using reasonably available sources for all other assets. Foreclosed assets for which appraisals can be feasibly obtained are periodically measured for impairment using updated appraisals. Other foreclosed assets are periodically re-evaluated by adjusting expected cash flows and timing of resolution, again using reasonably available sources. If impairment is determined to exist, the book value of a foreclosed asset is immediately written down to its estimated impaired value through the income statement, thus the carrying amount is equal to the fair value and there is no valuation allowance.

Assets and liabilities measured at fair value on a recurring basis, including financial liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at December 31, 2008, Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Available for Sale Securities	$ 503,475	$ 242,909,370	$	$ 243,412,845
Loans Held for Sale	$ 552,000	$	$	$ 552,000

Assets and liabilities measured at the lower of cost or fair value on a non-recurring basis are summarized below:

	Lower of Cost or Fair Value at December 31, 2008, Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired Loans	$	$ 25,118,784	$ 3,214,903	$ 28,333,687
Foreclosed Assets	$	$ 7,127,358	$	$ 7,127,358

The following represent impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $29,786,000 at December 31, 2008, with a valuation allowance of $1,325,000, resulting in an additional provision-for loan losses of $1,325,000 for the period.

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

20. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures include estimated fair values for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at December 31, 2008 and 2007:

Cash and cash equivalents and short-term borrowings: For cash and cash equivalents and short-term borrowings, the carrying amount is estimated to be fair value.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

Loans and leases: For variable-rate loans and leases that reprice frequently with no significant change in credit risk or interest rate spread, fair values are based on carrying values. Fair values for other loans and leases are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans and leases with similar terms to borrowers of comparable creditworthiness. Fair values of loans held for sale are estimated using quoted market prices for similar loans or the amount the purchasers have committed to purchase the loan. The carrying amount of accrued interest receivable approximates its fair value.

Cash surrender value of life insurance policies: The fair values are based on current cash surrender values at each reporting date provided by the insurers.

Investment in limited partnerships: The fair values of the investments in WNC Institutional Tax Credit Fund Limited Partnerships are estimated using quarterly indications of value provided by the general partner.

Other investments: Included in other assets are certain long-term investments carried at cost, which approximates estimated fair value.

Deposits: The fair values for demand deposits and other non-maturity deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis

using interest rates being offered at each reporting date by the Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Short-term borrowings: The carrying amounts of federal funds purchased, overnight FHLB advances, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Company s current incremental borrowing rates for similar types of borrowing arrangements.

Long-term borrowings: The fair values of the Company s long-term borrowings are estimated using discounted cash flow analyses based on the Company s current incremental borrowing rates for similar types of borrowing arrangements.

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

20. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Subordinated debentures: The fair value of subordinated debentures was determined based on the current market value for like kind instruments of a similar maturity and structure.

Limited partnership capital commitments: The fair value of the capital commitments to the WNC Institutional Tax Credit Fund Limited Partnerships are estimated using a discounted cash flow analysis using rates of return currently available for similar instruments.

Commitments to extend credit and letters of credit: Commitments to extend credit are primarily for adjustable rate loans. For these commitments, there are no differences between the committed amounts and their fair values. Commitments to fund fixed rate loans and letters of credit are at rates which approximate fair value at each reporting date.

	December 31, 2008		December 31, 2007	
	(Dollars in thousands)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 51,510	$ 51,510	$ 44,022	$ 44,022
Investment securities available for sale	243,413	243,413	184,917	184,917
Loans and leases, net	930,181	993,287	909,312	934,408
Cash surrender value of life insurance policies	28,353	28,353	27,995	27,995
Other investments	9,361	9,361	10,561	10,561
Investment in limited partnership	13,453	13,453	14,760	14,760
Accrued interest receivable	6,669	6,669	6,864	6,864
Financial liabilities:				
Deposits	$ 1,061,498	$ 982,230	$ 850,147	$ 849,557
Short-term borrowings	83,919	84,010	232,082	231,995
Long-term borrowings	30,000	31,033	5,000	4,874
Subordinated debentures	30,928	16,707	30,928	30,404
Limited partnership capital commitment	1,800	1,800	3,981	3,981
Accrued interest payable	1,520	1,520	1,403	1,403
Off-balance-sheet financial instruments:				
Commitments to extend credit	$ 177,230	$ 177,230	$ 208,487	$ 208,487
Standby letters of credit	11,138	11,138	11,269	11,269

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

21. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

BALANCE SHEETS

December 31, 2008 and 2007

(Dollars in thousands)

	2008	2007
ASSETS		
Cash and due from banks	$ 8,678	$ 497
Investment in bank subsidiary	126,063	128,825
Investment in Trust subsidiaries	928	928
Investment in other securities	1,768	
Other assets	458	251
Total assets	$ 137,895	$ 130,501
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Other liabilities	$ 167	$ 109
Subordinated debentures	30,928	30,928
Total liabilities	31,095	31,037
Shareholders equity:		
Common stock	20,875	18,562
Retained earnings	84,946	81,117
Accumulated other comprehensive income (loss), net of taxes	979	(215)
Total shareholders equity	106,800	99,464
Total liabilities and shareholders equity	$ 137,895	$ 130,501

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

21. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

STATEMENTS OF INCOME

For the Years Ended December 31, 2008, 2007 and 2006

(Dollars in thousands)

	2008	**2007**	**2006**
Income:			
Dividends declared by bank subsidiary eliminated in consolidation	$ 18,517	$ 12,021	$ 5,283
Other operating income	30		21
Total income	18,547	12,021	5,304
Expenses:			
Interest on subordinated debentures	1,644	2,281	3,205
Other expenses	964	607	832
Total expenses	2,608	2,888	4,037
Income before income taxes	15,939	9,133	1,267
Income tax benefit	(1,074)	(1,221)	(1,692)
Income before equity in undistributed income of subsidiary	17,013	10,354	2,959
Equity in (distributed) undistributed income of subsidiary	(3,600)	10,668	16,231
Net income	$ 13,413	$ 21,022	$ 19,190

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

21. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008, 2007 and 2006

(Dollars in thousands)

	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 13,413	$ 21,022	$ 19,190
Adjustments to reconcile net income to net cash provided by operating activities:			
Distributed (undistributed) income of subsidiary	3,600	(10,668)	(16,231)
Decrease in other assets	184	490	2,485
Increase/(decrease) in other liabilities	59	(141)	41
Tax benefit from equity based compensation	613	1,690	1,447
Other			(1)
Net cash provided by operating activities	17,869	12,393	6,931
Cash flows from investing activities:			
Investment in Trust subsidiary			(464)
Proceeds from subsidiary			464
Purchases of investment securities available for sale	(2,699)		
Net cash used in investing activities	(2,699)		
Cash flows from financing activities:			
Proceeds from the issuance of subordinated debentures			15,464
Repayments of subordinated debentures			(15,464)
Proceeds from exercise of stock options	1,627	1,844	2,273
Common stock repurchase and retirement	(2,080)	(11,293)	(6,599)
Dividends paid	(6,536)	(6,021)	(5,283)
Net cash used in financing activities	(6,989)	(15,470)	(9,609)
Net increase/(decrease) in cash and cash equivalents	8,181	(3,077)	(2,678)
Cash and cash equivalents, beginning of year	497	3,574	6,252
Cash and cash equivalents, end of year	$ 8,678	$ 497	$ 3,574

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SIERRA BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

22. CONDENSED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table sets forth the Company s results of operations for the four quarters of 2008 and 2007 and is unaudited. In management s opinion, the results of operations reflect all adjustments (which include only recurring adjustments) necessary to present fairly the condensed results for such periods.

	2008 Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
Interest income	$ 17,923	$ 20,082	$ 19,454	$ 20,479
Interest expense	4,547	5,009	5,237	6,536
Net interest income	13,376	15,073	14,217	13,943
Provision for loan and lease losses	13,636	900	2,650	2,270
Non-interest income	3,631	4,345	3,844	4,167
Non-interest expense	8,151	10,313	8,853	8,542
Net income before taxes	(4,780)	8,205	6,558	7,298
Provision for taxes	(2,897)	2,433	1,994	2,338
Net income	$ (1,883)	$ 5,772	$ 4,564	$ 4,960
Diluted earnings per share	$ (.19)	$ .59	$ .47	$ .51
Cash dividend per share	$ .17	$ .17	$ .17	$ .17

	2007 Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
Interest income	$ 21,353	$ 22,190	$ 22,263	$ 21,745
Interest expense	7,560	8,128	7,978	7,769
Net interest income	13,793	14,062	14,285	13,976
Provision for loan and lease losses	951	700	701	900
Non-interest income	3,798	3,366	4,746	2,990
Non-interest expense	9,189	8,842	8,966	8,984
Net income before taxes	7,451	7,886	9,364	7,082
Provision for taxes	2,507	2,616	3,309	2,329
Net income	$ 4,944	$ 5,270	$ 6,055	$ 4,753
Diluted earnings per share	$ .49	$ .53	$ .60	$ .47
Cash dividend per share	$ .16	$ .16	$ .15	$ .15

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company s Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13(a) 15(e) as of the end of the period covered by this report (the Evaluation Date) have concluded that as of the Evaluation Date, the Company s disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this annual report was being prepared.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Management of the Company is responsible for the preparation, integrity, and reliability of the consolidated financial statements and related financial information contained in this annual report. The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on judgments and estimates of management.

Management has established and is responsible for maintaining effective internal control over financial reporting. The Company s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time. The system contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2008.

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Our assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2008 has been audited by Vavrinek, Trine, Day & Co., LLP, an independent registered public accounting firm, as stated in their report appearing below.

Changes in Internal Controls

There were no significant changes in the Company s internal controls over financial reporting or in other factors in the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Sierra Bancorp and Subsidiary

Porterville, California

We have audited Sierra Bancorp and Subsidiary s (the Company s) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with U.S. generally accepted accounting principles. Because management s assessment and our audit were conducted to also meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management s assessment and our audit of the Company s internal control over financial reporting included controls over the preparation of financial statements in accordance with instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheets of the Company as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders equity and comprehensive income and cash flows for the three years in the period ended December 31, 2008, and our report dated March 12, 2009 expressed an unqualified opinion on those financial statements.

/s/ Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

March 12, 2009

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ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required to be furnished pursuant to this item with respect to Directors and Executive Officers of the Company will be set forth under the caption Election of Directors in the Company s proxy statement for the 2009 Annual Meeting of Shareholders (the Proxy Statement), which the Company will file with the SEC within 120 days after the close of the Company s 2008 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is hereby incorporated by reference.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement, and is incorporated herein by reference.

The information required to be furnished pursuant to this item with respect to the Company s Code of Ethics and corporate governance matters will be set forth under the caption Corporate Governance in the Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished pursuant to this item will be set forth under the captions Executive Officer and Director Compensation and Compensation Discussion and Analysis in the Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

The information required by Item 12 with respect to securities authorized for issuance under equity compensation plans is set forth under Item 5 Market for Registrant s Common Equity and Issuer Repurchases of Equity Securities above.

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Other Information Concerning Security Ownership of Certain Beneficial Owners and Management

The remainder of the information required by Item 12 will be set forth under the captions Security Ownership of Certain Beneficial Owners and Management and Election of Directors in the Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required to be furnished pursuant to this item will be set forth under the captions Related Party Transactions and Corporate Governance Director Independence in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required to be furnished pursuant to this item will be set forth under the caption Relationship with Independent Registered Public Accounting Firm Fees in the Proxy Statement, and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) **Exhibits**

Exhibit #	Description
3.1	Articles of Incorporation of Sierra Bancorp (1)
3.2	Amendment to Articles of Incorporation of Sierra Bancorp (1)
3.3	Amended and Restated By-laws of the Company (2)
10.1	1998 Stock Option Plan (1)
10.2	Salary Continuation Agreement for Kenneth R. Taylor (3)
10.3	Salary Continuation Agreement for James C. Holly (3)
10.4	Salary Continuation Agreement and Split Dollar Agreement for James F. Gardunio (4)
10.5	Split Dollar Agreement for Kenneth R. Taylor (5)
10.6	Split Dollar Agreement and Amendment thereto for James C. Holly (5)
10.7	Director Retirement Agreement for Robert Tienken (5)
10.8	Director Retirement Agreement and Split dollar Agreement for Vincent Jurkovich (5)
10.9	Director Retirement Agreement and Split dollar Agreement for Robert Fields (5)
10.10	Director Retirement Agreement and Split dollar Agreement for Gordon Woods (5)
10.11	Director Retirement Agreement and Split dollar Agreement for Morris Tharp (5)
10.12	Director Retirement Agreement and Split dollar Agreement for Albert Berra (5)
10.13	401 Plus Non-Qualified Deferred Compensation Plan (5)
10.14	Indenture dated as of March 17, 2004 between U.S. Bank National Association, as Trustee, and Sierra Bancorp, as Issuer (6)
10.15	Amended and Restated Declaration of Trust of Sierra Statutory Trust II, dated as of March 17, 2004 (6)
10.16	Guarantee Agreement between Sierra Bancorp and U.S. Bank National Association dated as of March 17, 2004 (6)
10.17	Indenture dated as of June 15, 2006 between Wilmington Trust Co., as Trustee, and Sierra Bancorp, as Issuer (7)
10.18	Amended and Restated Declaration of Trust of Sierra Capital Trust III, dated as of June 15, 2006 (7)
10.19	Guarantee Agreement between Sierra Bancorp and Wilmington Trust Company dated as of June 15, 2006 (7)
10.20	2007 Stock Incentive Plan (8)
10.21	Sample Retirement Agreement Entered into with Each Non-Employee Director Effective January 1, 2007 (9)
10.22	Salary Continuation Agreement for Kevin J. McPhaill (9)
10.23	First Amendment to the Salary Continuation Agreement for Kenneth R. Taylor (9)
11	Statement of Computation of Per Share Earnings (10)
21	Subsidiaries of Sierra Bancorp (11)
23	Consent of Vavrinek, Trine, Day & Co., LLP
31.1	Certification of Chief Executive Officer (Section 302 Certification)
31.2	Certification of Chief Financial Officer (Section 302 Certification)
32	Certification of Periodic Financial Report (Section 906 Certification)

(1) Filed as an Exhibit to the Registration Statement of Sierra Bancorp on Form S-4 filed with the Securities and Exchange Commission (SEC) (Registration No. 333-53178) on January 4, 2001 and incorporated herein by reference.
(2) Filed as an Exhibit to the Form 8-K filed with the SEC on February 21, 2007 and incorporated herein by reference.
(3) Filed as Exhibits 10.5 and 10.7 to the Form 10-Q filed with the SEC on May 15, 2003 and incorporated herein by reference.
(4) Filed as an Exhibit to the Form 8-K filed with the SEC on August 11, 2005 and incorporated herein by reference.
(5) Filed as Exhibits 10.10, 10.12, and 10.15 through 10.20 to the Form 10-K filed with the SEC on March 15, 2006 and incorporated herein by reference.
(6) Filed as Exhibits 10.9 through 10.11 to the Form 10-Q filed with the SEC on May 14, 2004 and incorporated herein by reference.
(7) Filed as Exhibits 10.26 through 10.28 to the Form 10-Q filed with the SEC on August 9, 2006 and incorporated herein by reference.
(8) Filed as Exhibit 10.20 to the Form 10-K filed with the SEC on March 15, 2007 and incorporated herein by reference.
(9) Filed as an Exhibit to the Form 8-K filed with the SEC on January 8, 2007 and incorporated herein by reference.
(10) Computation of earnings per share is incorporated by reference to Note 6 of the Financial Statements included herein.
(11) Filed as Exhibit 21 to the Form 10-K filed with the SEC on March 15, 2007 and incorporated herein by reference.

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(b) **Financial Statement Schedules**

Schedules to the financial statements are omitted because the required information is not applicable or because the required information is presented in the Company s Consolidated Financial Statements or related notes.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 12, 2009

SIERRA BANCORP,
a California corporation

By: */s/ James C. Holly*
James C. Holly
President & Chief Executive Officer

By: */s/ Kenneth R. Taylor*
Kenneth R. Taylor
Executive Vice President & Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Albert L. Berra Albert L. Berra	Director	March 12, 2009
/s/ Robert L. Fields Robert L. Fields	Director	March 12, 2009
/s/ James C. Holly James C. Holly	President, Chief Executive Officer, & Director	March 12, 2009
/s/ Vincent L. Jurkovich Vincent L. Jurkovich	Director	March 12, 2009
/s/ Lynda B. Scearcy Lynda B. Scearcy	Director	March 12, 2009
/s/ Morris A. Tharp Morris A. Tharp	Chairman of the Board	March 12, 2009
/s/ Robert H. Tienken Robert H. Tienken	Director	March 12, 2009
/s/ Gordon T. Woods Gordon T. Woods	Director	March 12, 2009
/s/ Kenneth R. Taylor Kenneth R. Taylor	Executive Vice President & Chief Financial Officer	March 12, 2009