

Oak Valley Bancorp
Form PRE 14A
April 16, 2013

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

Oak Valley Bancorp
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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 - (3) Filing Party:
 - (4) Date Filed:

125 North Third Avenue

Oakdale, California 95361

(209) 848-2265

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 4, 2013

The Annual Meeting of Shareholders of Oak Valley Bancorp, a California corporation (Oak Valley or the Company), will be held at **Oak Valley Bancorp Headquarters at 338 E F Street, Oakdale, California 95361 on June 4, 2013 4:00 p.m. Pacific Daylight Time**, to consider and vote on the following matters:

1. The election of the following four (4) directors nominees as described within the Proxy Statement:

James L. Gilbert

Janet S. Pelton

Roger M. Schrimp

Danny L. Titus

2. The ratification of the appointment of Moss Adams, LLP as the Company s independent registered public accounting firm;
3. A non-binding advisory resolution to approve the compensation of the Company s senior executive officers;

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4. To approve and adopt Amended and Restated Bylaws;

5. To transact such other business as may properly come before the Annual Meeting of Shareholders, and any adjournment or postponement.

The Board of Directors has fixed the close of business day on April 10, 2013, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting.

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 4, 2013

This communication presents only an overview of the more complete proxy materials, which includes the Company's 2012 Annual Report to Shareholders, Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2013, Notice of Annual Meeting, Proxy Statement, and Proxy Card (collectively, Proxy Materials), which are available for the public at www.edocumentview.com/OVLY. We encourage you to access and review all of the important information contained in the Proxy Materials before voting.

PLEASE NOTE YOU CANNOT VOTE BY RETURNING THIS NOTICE. To vote your shares you must vote online, by telephone, or request a paper copy of the Proxy Materials to receive a physical proxy card. There is no charge to you for requesting a paper copy of the Proxy Materials. Please make your request for a paper copy using one of the following methods as instructed below on or before May 24, 2013 to facilitate timely delivery.

Methods:	If you are a shareholder of record:	If you are beneficial owner of shares held in street name:
By Telephone:	Toll Free Telephone Number: 1-866-641-4276	Toll Free Telephone Number: 1-800-579-1639
From the Internet:	Go to www.investorvote.com , click Request Materials	Go to www.proxyvote.com by following the instructions on the screen.
By Email	Write to investorvote@computershare.com with subject line: Proxy Materials Oak Valley Bancorp.	Send a blank email to sendmaterial@proxyvote.com with your 12-Digital Control Number in the subject line.

Your Board of Director recommends that you vote:

- **FOR** the election of each of the Director nominees listed in the Proxy Statement under **PROPOSAL 1 ELECTION OF DIRECTORS** ;
- **FOR** the ratification of Moss Adams, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013 under **PROPOSAL 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM** ;
- **FOR** the non-binding advisory resolution to approve the compensation of the Company's Named Executive Officers under **PROPOSAL 3 NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION** ; and
- **FOR** the approval and adoption of Amended and Restated Bylaws of the Company under **PROPOSAL 4 APPROVAL AND ADOPTION OF AMENDED AND RESTATED BYLAWS.**

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By Order of the Board of Directors,

/s/ Richard A. McCarty
Richard A. McCarty
Secretary

Date: April [], 2013

**PROXY STATEMENT
OF
OAK VALLEY BANCORP**

**ANNUAL MEETING OF SHAREHOLDERS OF
OAK VALLEY BANCORP
TO BE HELD ON JUNE 4, 2013**

GENERAL INFORMATION FOR SHAREHOLDERS

The following information is furnished in connection with the solicitation of the accompanying proxy by and on behalf of the Board of Directors of Oak Valley Bancorp (the Company) for use at the Annual Meeting of Shareholders to be held at Oak Valley Bancorp Headquarters at 338 E F Street, Oakdale, California 95361, on June 4, 2013, at 4:00 p.m.

Shareholders Entitled to Vote

Only shareholders of record at the close of business on April 10, 2013, (the Record Date) will be entitled to notice of, and to vote, at the Annual Meeting. On the Record Date, the Company had outstanding 7,914,730 shares of its common stock, of which 7,914,730 will be entitled to vote at the Annual Meeting and any adjournments thereof. This Proxy Statement will be first mailed to shareholders on or about April 25, 2013.

Vote By Proxy

Because many of the Company's shareholders are not expected to attend the Annual Meeting in person, the Company solicits proxies so that each shareholder is given an opportunity to vote at the Annual Meeting. Shares represented by a duly executed proxy in the accompanying form of proxy card, received by the Board of Directors prior to the Annual Meeting, will be voted at the Annual Meeting. A shareholder executing and delivering the proxy may revoke the proxy at any time prior to exercise of the authority granted by the proxy by (i) filing with the secretary of the Company an instrument revoking it or a duly executed proxy bearing a later date; or (ii) attending the Annual Meeting and voting in person. A proxy is also revoked when written notice of the death or incapacity of the maker of the proxy is received by the Company before the vote is counted. If a shareholder specifies a choice with respect to any matter on the accompanying form of proxy, the shares will be voted accordingly. If no specification is made, the shares represented by the proxy will be voted in favor of the specified proposal.

Methods of Voting

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Shareholders may vote on matters that are properly presented at the 2013 Annual Meeting in one of the following four ways:

- By submitting your vote electronically via the Internet at **www.investorvote.com**;
- By submitting your vote telephonically;
- By completing the proxy card and returning it in a pre-paid envelope provided by the Company if you have requested a paper copy of the Proxy Materials; or
- By attending the 2013 Annual Meeting and casting your vote in person.

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For the 2013 Annual Meeting, the Company is offering registered shareholders the opportunity to vote their shares electronically through the Internet or by telephone. The telephone and Internet voting instructions are provided in the proxy card as well as in the Proxy Notice dated April [], 2013. The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to give their voting instructions, and to confirm that shareholders' instructions have been recorded properly. Shareholders voting through the Internet should understand that they may bear certain costs associated with Internet access, such as usage charges from their Internet service providers.

If a shareholder chooses to submit the vote by mail instead, the shareholder should request a paper copy of the Proxy Materials, and Company will send the shareholder the proxy card along with the rest of the Proxy Materials as well as a pre-paid envelope. The shareholder then would cast the shareholder's vote by signing and returning the proxy card in the pre-paid envelope to the Company. There is no charge to a shareholder for requesting a paper copy of the Proxy Materials. If you wish to receive a paper copy of the Proxy Materials, you must request a copy as instructed below on or before May 24, 2013 to ensure timely delivery.

Methods:	If you are a shareholder of record:	If you are beneficial owner of shares held in street name:
By Telephone:	Toll Free Telephone Number: 1-866-641-4276	Toll Free Telephone Number: 1-800-579-1639
From the Internet:	Go to www.investorvote.com , click Request Materials	Go to www.proxyvote.com by following the instructions on the screen.
By Email	Write to investorvote@computershare.com with subject line: Proxy Materials Oak Valley Bancorp.	Send a blank email to sendmaterial@proxyvote.com with your 12-Digital Control Number in the subject line.

Method of Counting Votes

A holder of common stock of the Company is entitled to one vote for each share held of record by such holder. No holder of any class of stock of the Company is be entitled to cumulate votes in connection with any election of directors of the Company.

The proxy holders, Ronald Martin and Roger Schrimp, both of whom are directors of the Company, will vote all shares of Common Stock represented by the proxies unless authority to vote such shares is withheld or the proxy is revoked. However, the proxy holders cannot vote the shares of the shareholder unless the shareholder signs and returns a proxy card. Proxies also confer upon the proxy holders discretionary authority to vote the shares represented thereby on any matter that was not known at the time this Proxy Statement was mailed, if such matter is properly presented for action at the Annual Meeting, including any motion to adjourn and any procedural matter pertaining to the conduct of the Annual Meeting. The total expense of soliciting the proxies in the accompanying form will be borne by the Company. While proxies are normally solicited by mail, proxies also may be solicited directly by officers, directors and employees of the Company or its subsidiary, Oak Valley Community Bank (the Bank). Such officers, directors and employees will not be compensated for this service beyond normal compensation to them.

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All abstentions and broker non-votes are included in the determination of the number of shares present and voting for the purpose of determining whether a quorum is present, and each is tabulated separately. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters, if the beneficial owner of the shares has not provided instructions to the broker on how to vote such shares. A broker non-vote occurs when a broker does not vote on a particular matter because the broker has not received instructions from the beneficial owner of the shares and does not have the discretion to vote such shares. Each of (i) the non-binding advisory vote on executive compensation, and (ii) the ratification of the selection of the Company's independent registered public accounting firm, is a routine matter on which brokers have the discretion to vote if the owner of shares has not provided voting instructions. The election of directors is a non-routine matter on which a broker may not vote unless the beneficial owner of shares has provided voting instructions.

Unless contrary instructions are indicated on the proxy, all shares represented by valid Proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted as follows:

- **FOR** the election of all nominees for director named herein (Proposal No. 1);
- **FOR** ratification of the selection of Moss Adams, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013 (Proposal No. 2);
- **FOR** the non-binding advisory resolution to approve executive compensation (Proposal No. 3);
- **FOR** the approval and adoption of Amended and Restated Bylaws of the Company (Proposal No. 4).

In the event a shareholder specifies a different choice on the proxy, the shareholder's shares will be voted in accordance with the specification so made. In addition, such shares will, at the proxy holder's discretion, be voted on such other matters, if any, which may properly come before the Annual Meeting (including any proposal to adjourn the Annual Meeting and any procedural matter pertaining to the conduct of the Annual Meeting). Boxes and a designated blank space are provided on the proxy card for shareholders to mark if they wish either to abstain on one or more of the proposals or to withhold authority to vote for one or more nominees for director.

A copy of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2012 is available at www.edocumentview.com/OVLY, and is incorporated herein by reference. You may request a paper copy of the Annual Report and other Proxy Materials by contacting:

Methods:	If you are a shareholder of record:	If you are beneficial owner of shares held in street name:
By Telephone:	Toll Free Telephone Number: 1-866-641-4276	Toll Free Telephone Number: 1-800-579-1639

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From the Internet:	Go to www.investorvote.com , click Request Materials	Go to www.proxyvote.com by following the instructions on the screen.
By Email	Write to investorvote@computershare.com with subject line: Proxy Materials Oak Valley Bancorp.	Send a blank email to sendmaterial@proxyvote.com with your 12-Digital Control Number in the subject line.

Vote Required For Election of Directors

Four (4) nominees receiving a plurality of the votes cast at the Annual Meeting will be elected as directors. This means that the four (4) nominees who receive the largest number of votes cast are elected as directors. Withholding authority to vote for a director nominee and broker non-votes on the election of directors will not affect the outcome of the election. **Our Board of Directors unanimously recommends that you vote FOR the election of each of its director nominees.**

Ratification of Selection of Independent Accountants

The affirmative vote of a majority of our shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required to ratify the selection of Moss Adams LLP as our independent registered public accounting firm for 2013. Abstentions will be treated as present and entitled to vote and therefore will have the same effect as a vote against this proposal. **Our Board of Directors unanimously recommends that you vote FOR the proposal to ratify the appointment of Moss Adams LLP as our independent registered public accounting firm for the year ending December 31, 2013.**

Advisory Proposal on the Company's Executive Compensation

The affirmative vote of a majority of our shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required to approve this proposal. Abstentions will be treated as present and entitled to vote and therefore will have the same effect as a vote against this proposal. Broker non-votes will not affect the outcome of the advisory vote. The results of this voting are not binding on the Board. **Our Board of Directors unanimously recommends that you vote FOR the adoption of an advisory resolution to approve our executive compensation as disclosed in this Proxy Statement.**

Adoption of Amended and Restated Bylaws

The affirmative vote of a majority of our shares of common stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required to approve this proposal. Abstentions will be treated as present and entitled to vote and therefore will have the same effect as a vote against this proposal. Broker non-votes will not affect the outcome of the advisory vote. The results of this voting are not binding on the Board. **Our Board of Directors unanimously recommends that you vote FOR the adoption of the Amended and Restated Bylaws.**

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNER AND MANAGEMENT

Ownership of Securities

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of December 31, 2012, by:

- Each person known by us to be a beneficial owner of five percent (5%) or more of our common stock;
- Each current director, each of whom is a nominee for election as a director; and
- All current directors and executive officers as a group.

Our common stock is the only class of voting securities outstanding. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (SEC) and includes voting and investment power with respect to the securities. Except as indicated in the notes following the table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The percentage of beneficial ownership is based on 7,914,730 shares of common stock outstanding as of March 31, 2013. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of our common stock subject to options held by that person that are currently exercisable or that will become exercisable within 60 days following March 31, 2013 are deemed outstanding. However, these shares are not deemed outstanding for the purpose of computing the percentage ownership of any other person or entity.

Beneficial Owner	Common Stock Beneficially Owned (1) on March 31, 2013		Percentage of Shares Beneficially Owned (3)
	Shares Beneficially Owned	Vested Stock Options (2)	
<i>Five Percent Shareholder: (4)</i>			
Idaho Trust Bank	711,707		8.99%
<i>Executive Officers and Directors: (5)</i>			
James L. Gilbert	149,208		1.89%
Thomas A. Haidlen	191,380		2.42%
Michael Q. Jones	13,533	4,500	0.23%
Roger M. Schrimp	190,840		2.41%
Danny L. Titus	199,418		2.52%
Richard J. Vaughan	88,000		1.11%
Donald L. Barton	16,500	5,000	0.27%
Daniel L. Leonard	33,931		0.43%
Ronald C. Martin (6)	188,055	33,750	2.80%
Christopher M. Courtney	132,548	33,750	2.10%

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Richard A. McCarty	14,627	22,500	0.47%
All officers and directors as a group	1,218,040	99,500	16.65%

(1) Except as otherwise noted, may include shares held by such person's spouse (except where legally separated) and minor children, and by any other relative of such person who has the same home; shares held in street name for the benefit of such person; shares held by a family or living trust as to which such person is a trustee and primary beneficiary with sole voting and investment power (or shared power with a spouse); and shares held in an Individual Retirement Account or pension plan as to which such person is the sole beneficiary.

(2) Consists of shares which (i) the applicable individual or group owns and which are subject to lapsing restrictions on resale, or (ii) the applicable individual or group has the right to acquire upon the exercise of stock options that have vested or will vest within 60 days of March 31, 2013 pursuant to the Company's Stock Plans.

(3) This percentage is based on the total number of shares of our common stock outstanding, plus the number of shares subject to lapsing restrictions on resale and the option shares which the applicable individual or group has the right to acquire upon the exercise of stock options that have vested or will vest within 60 days of March 31, 2013 pursuant to the Company's Stock Plans.

(4) As trustee for the PWH Trust dated March 2, 1994 with address of 888 West Broad St., Boise, ID 83702

(5) The address for all officers and directors is c/o Oak Valley Community Bank, 125 North Third Avenue, Oakdale, California 95361.

(6) Excludes third party participant shares held by Mr. Martin in his capacity as trustee of the Company's 401(k) plan.

CORPORATE GOVERNANCE AND BOARD MATTERS

We are committed to having sound corporate governance principles, good business practices, and transparency in financial reporting. Having such principles is essential to running our business efficiently and to maintaining our integrity in the marketplace. Our Board of Directors continually reviews its governance policies and practices, as well as the requirements of the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the listing standards of The NASDAQ Stock Market, to help ensure that such policies and practices are compliant and up to date.

Board of Directors

Board Independence

A majority of the Board of Directors consists of independent directors, as defined by the applicable rules and regulations of The NASDAQ Stock Market, as follows:

Donald L. Barton

James L. Gilbert

Thomas A. Haidlen

Michael Q. Jones

Daniel J. Leonard

Roger M. Schrimp

Danny L. Titus

Richard J. Vaughan

The non-independent directors of the Board are Ronald C. Martin and Christopher M. Courtney, who are our Chief Executive Officer and President, respectively.

Board and Committee Meeting Attendance

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During the fiscal year ended December 31, 2012, our Board of Directors held a total of twelve (12) meetings. Each incumbent director who was a director during 2012 attended at least 75% of the aggregate of (a) the total number of such meetings; and (b) the total number of meetings held by all committees of the Board on which such director served during 2012.

Director Attendance at Annual Meetings of Shareholders

The Board believes it is important for all directors to attend the Annual Meeting of Shareholders in order to show their support for the Company and to provide an opportunity for shareholders to communicate any concerns to them. The Company's policy is to encourage, but not require, attendance by each director at the Company's Annual Meeting of Shareholders. A majority of our current directors attended our Annual Meeting of Shareholders in 2012.

Communications with the Board

The Board of Directors has established a process for shareholders to communicate with the Board of Directors or with individual directors. Shareholders who wish to communicate with the Board of Directors or with individual directors should direct written correspondence to our Corporate Secretary at our principal executive offices located at 125 North Third Avenue, Oakdale, California 95361. Any such communication must contain (i) a representation that the shareholder is a holder of record of stock of the Company; (ii) the name and address, as they appear on our books, of the shareholder sending such communication, and (iii) the class and number of shares of our stock that are beneficially owned by such shareholder. Our Corporate Secretary may (but is not required to) review all correspondence addressed to the Board, or to any individual member of the Board, for any correspondence that more suitably directed to management. Communications may be deemed inappropriate for this purpose if, for example, it is reasonably apparent from the face of the correspondence that it relates principally to a customer dispute. Our policies regarding the handling of security holder communications were approved by a majority of our independent directors.

Nomination of Directors

The Board as a whole identifies and evaluates nominees for election as directors. The Board utilizes a variety of methods for identifying and evaluating nominees for director. Although there are no specific minimum qualifications, the Board considers some or all of the following criteria in considering candidates to serve as directors:

- commitment to ethical conduct and personal and professional integrity as evidenced by the person's business associations; diversity efforts, service as a director or executive officer, involvement in other organizations (including any educational institutions), and any other commitment to ethical conduct and personal and professional integrity;

- objective perspective and mature judgment developed through business experiences and/or educational endeavors;

- the candidate's ability to work with other members of the Board of Directors and management to further the Company's goals and increase shareholder value;

- the ability and commitment to devote sufficient time to carry out duties and responsibilities as a director;

- demonstrated experience at policy-making levels in various organizations and in the areas that are relevant to our activities;

- the skills and experience of the potential nominee in relation to the capabilities already present on the Board of Directors;

- local community involvement; and

- such other attributes, including independence, that are relevant in constituting a board that satisfies the requirements imposed by the SEC and The NASDAQ Stock Market.

In addition to the factors discussed above, the Board regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Board considers various potential candidates for director. Candidates may come to the attention of the Board through current Board members, shareholders or other persons. As described above, the Board considers properly submitted shareholder nominations for candidates for the Board. Following verification of the shareholder status of persons nominating candidates, nominations are aggregated and considered by the Board at a regularly scheduled meeting, which is generally the first or second meeting prior to the issuance of the proxy statement for our annual meeting. If any materials are provided by a shareholder in connection with the nomination of a director candidate, such materials are forwarded to the Board.

The Board does not have a formal written policy regarding consideration of director candidates recommended by shareholders. Instead, the Board considers all candidates who meet the requirements for nomination by a shareholder, based on the criteria discussed above. The Board believes that requiring shareholder nominations of director candidates to comply with specific requirements would create an unnecessary distinction and may limit the potential pool of qualified director candidates for the Board.

Term of Office

Directors serve for a three-year term or until their successors are elected. The Bylaws of the Company, as amended, authorize the Company to have a classified Board of Directors, divided into three classes, so long as the number of directors of the Company has been fixed at nine (9) or more directors. Currently, the Board has been fixed at eleven (11) directors. Pursuant to Section 3.3 of the Company Bylaws, in the event that the authorized number of directors is fixed at nine (9) or more, the Board of Directors is to be divided into three classes, designated Class I, Class II and Class III. Each class shall consist of one-third of the directors or as close an approximation as possible. Each director in each class is elected for a term running until the third annual meeting next succeeding his election, until his successor shall have been duly elected and qualified. Accordingly, each nominee director, if elected, will hold office as follows until his successor is duly elected and qualified for the following terms:

Nominee		Expiration of Term
Christopher M.	Courtney	2014
Michael Q.	Jones	2014
Richard J.	Vaughan	2014
Donald L.	Barton	2015
Thomas A.	Haidlen	2015
Daniel J.	Leonard	2015
Ronald C.	Martin	2015
James L.	Gilbert	2016(1)
Janet S.	Pelton	2016(1)
Roger M.	Schrimp	2016(1)
Danny L.	Titus	2016(1)

(1) If elected at the June 4, 2013 meeting. Ms. Pelton would be considered an independent director if elected.

The Board does not have term limits, instead preferring to rely upon the evaluation procedures described herein as the primary methods of ensuring that each director continues to act in a manner consistent with the best interests of the shareholders and the Company.

Number and Composition of Board Committees

The Board may delegate portions of its responsibilities to committees of its members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. Our Board has six (6) standing committees: Nominating Committee, Audit Committee, Loan Committee, Investment Committee, Compensation Committee and CRA Committee. An independent director, as defined by the applicable rules and regulations of The NASDAQ Stock Market, chairs the Board and its other standing committees. The chair determines the agenda, the frequency and the length of the meetings and receives input from Board members.

Committee of the Board

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As of the date of this Proxy Statement, our Board had ten (10) directors and the following six (6) committees:

- Nominating,
- Audit,
- Loan,
- Investment,
- Compensation, and
- CRA Committee.

Executive Sessions

Independent directors meet in executive sessions throughout the year including meeting annually to consider and act upon the recommendation of the Compensation Committee regarding the compensation and performance of the chief executive officer.

Evaluation of Board Performance

A Board assessment and director self-evaluations are conducted annually in accordance with an established evaluation process and includes performance of committees. The Chairman of the Nominating Committee, who is a rotating independent director, oversees this process and reviews the assessment and self-evaluation with the full Board.

Management Performance and Compensation

The Compensation Committee reviews and approves the Chief Executive Officer's evaluation of the top management team on an annual basis. The Board (largely through the Compensation Committee) evaluates the compensation plans for senior management and other employees to ensure they are appropriate, competitive and properly reflect objectives and performance.

Director Stock Ownership Guidelines

The Board encourages, but does not require, each Board member to hold shares of the Company's common stock. Although the Board has not fixed any particular target holding, any director is encouraged to hold Company's common stock for his or her own investment.

Code of Ethics

The Board expects all directors, as well as officers and employees, to display the highest standard of ethics, consistent with the principles that have guided the Company over the years.

We have adopted a Code of Ethics, which is posted on our Internet website at www.ovcb.com, under the "About Us" tab, in the "Investor Relations" section, at the link for "Governance Documents." Our Code of Ethics helps ensure that the financial affairs of the Company are conducted honestly, ethically, accurately, objectively, consistent with generally accepted accounting principles and in compliance with all applicable governmental law, rules and regulations. We will disclose any amendment to, or a waiver from a provision of our Code of Ethics on our website. Our Code of Ethics applies to our directors, executive officers, employees and consultants. Our Chief Executive Officer and all senior financial officers, including the Chief Financial Officer, are bound by our Code of Ethics.

Reporting of Complaints/Concerns Regarding Accounting or Auditing Matters

The Company's Board of Directors has adopted procedures for receiving and responding to complaints or concerns regarding accounting and auditing matters. These procedures were designed to provide a channel of communication for employees and others who have complaints or concerns regarding accounting or auditing matters involving the Company.

Employee concerns may be communicated in a confidential or anonymous manner to the Audit Committee of the Board. The Audit Committee Chairman will make a determination on the level of inquiry, investigation or disposal of the complaint. All complaints are discussed with the Company's senior management and monitored by the Audit Committee for handling, investigation and final disposition. The Chairman of the Audit Committee will report the status and disposition of all complaints to the Board of Directors.

INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

Executive Officers

Set forth below is certain information with respect to the executive officers of the Company:

Name	Age	Position	Officer Since*
Ronald C. Martin	66	Chief Executive Officer	2008
Christopher M. Courtney	50	President	2008
Richard A. McCarty	41	Executive Vice President, Chief Financial Officer, Chief Administrative Officer and Secretary	2008
David S. Harvey	59	Executive Vice President, Commercial Banking Group	2008
Michael J. Rodrigues	43	Executive Vice President and Chief Credit Officer	2008

* The Company was formed in 2008 as the bank holding company of Oak Valley Community Bank.

Biographical information for our senior executive officers (SEOs) who are not nominees for election is set forth below.

Ronald C. Martin has served as a director and Chief Executive Officer of the Bank since 1992. He was also the Bank's President until August 2004. He has been Oak Valley Bancorp Chief Executive Officer and a Director since May 2008. Mr. Martin began his banking career in 1977 with River City Bank in Sacramento, California. Between 1977 and 1987 he was employed in the Sacramento area, and from December 1987 to January 1992 he served as President and Chief Executive Officer of Butte Savings in Chico, California. Mr. Martin has a B.S. in Finance from the University of Arizona. Mr. Martin is a veteran banker with a deep understanding of our local community banking needs.

Christopher M. Courtney has been the Bank's President since August of 2004 and a director since January 2007. He has been Oak Valley Bancorp President and Director since May 2008. Previously, he has served as the Bank's Chief Credit Officer and Chief Operating Officer since 1999 and 2000, respectively. Mr. Courtney has 21 years of diverse banking experience, joining Oak Valley Community Bank in 1996, as a lender, after working for a major bank, a mid-size bank and a small community bank. He graduated from Wells Fargo Bank Credit Training Program in 1989. Mr. Courtney has a B.S. in Finance and a Masters in Business Administration from California State University, Sacramento. He is also a graduate of the Pacific Coast Banking School at the University of Washington. Mr. Courtney adds banking and operations experience to the Board.

Richard A. McCarty first joined Oak Valley Community Bank in 1996, and thereafter became our Executive Vice President and Chief Financial Officer in 2000, our Chief Administrative Officer in 2008 and our Secretary in February 2010. Mr. McCarty has a B.S. in Finance from California State University, Stanislaus.

David S. Harvey has 32 years of commercial lending experience, joining Oak Valley Community Bank in 2002. Mr. Harvey received his B.S. Degree in Corporate Finance from CSU Northridge and later went on to get his Master's Degree in Banking and Finance from Golden Gate University in 1984.

Michael J. Rodrigues first joined Oak Valley Community Bank in 1997. He has been the Bank's Chief Credit Officer since 2006. Mr. Rodrigues has 20 years of diverse banking experience, joining Oak Valley Community Bank in 1997, as a commercial lender. He has a degree in Business Finance from California Polytechnic State University, San Luis Obispo. He is also a 2006 graduate of the Pacific Coast Banking School at the University of Washington.

The Board of Directors

The Board of Directors oversees our business and monitors the performance of management. In accordance with corporate governance principles, the Board does not involve itself in day-to-day operations. The directors keep themselves informed through, among other things, discussions with the Chief Executive Officer, other key executives and our principal outside advisors (legal counsel, outside auditors, and other consultants), by reading reports and other materials that we send them and by participating in Board and committee meetings.

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The Company's Bylaws currently permit the number of Board members to range from seven (7) to thirteen (13), leaving the Board authority to fix the exact number of directors within that range. The Board has currently fixed the number of directors at eleven (11).

Directors

Biographical information of our current directors who are not executive officers and are not nominees for election is set forth below:

Donald L. Barton, 55, has been a director of the Bank since 2006 and of Oak Valley Bancorp since 2008. Mr. Barton is the managing partner at GoldRiver Orchards, a local walnut processing operation which his family started since 1912. Previously, he was Vice President Marketing at The Wornick Company, and President at Heidi's Gourmet Desserts. Before that he had number of managerial and executive positions in the food and agribusiness industries, including positions with Cargill and HJ Heinz. Mr. Barton is a Stanford graduate and earned his MBA from Santa Clara University. Mr. Barton is an Oakdale, California resident. Mr. Barton adds knowledge of the local economy to the Board.

Thomas A. Haidlen, 66, has been a director of the Bank since 1991 and of Oak Valley Bancorp since 2008. Mr. Haidlen was born in Oakdale and has resided in Oakdale for over 50 years. He owns and operates the Haidlen Ford Dealership in Oakdale, California that was established in Oakdale in 1955. Mr. Haidlen helps connect our banking operations with the local commercial community.

Michael Q. Jones, 67, has been a director of the Bank since 2004 and of Oak Valley Bancorp since 2008. Mr. Jones has been a resident of Sonora, California since 1974. Mr. Jones has served as the Chairman of California Gold Development Corporation since 1974, and has been the owner of the Prudential California Realty in Sonora since 2002. Mr. Jones brings knowledge of the real estate markets to the Board.

Daniel J. Leonard, 66, was appointed to fill a vacancy on the boards of the Bank and Oak Valley Bancorp in January 2012. Mr. Leonard currently serves as the Vice President, Chief Financial Officer of Bronco Wine Company, where he has been employed for over 25 years. He has served on the Board of Directors for the Wine Institute, a voice for the California wine industry, for the past 21 years. He is also currently serving as Chairman of the Board for both the College of Business Administration at California State University at Stanislaus and the Parent Resource Center, a Modesto, California nonprofit organization, which he has been involved with for over 15 years. Mr. Leonard brings experience and additional business ties in our communities.

Richard J. Vaughan, 74, has been a director of the Bank since 1991 and of Oak Valley Bancorp since 2008. Mr. Vaughan owns Vaughan Farms, operating in Waterford and Oakdale, California. Mr. Vaughan has been involved with agribusiness since 1961. Mr. Vaughan helps the Board understand the banking needs of the local agricultural industry.

Board Leadership Structure

The Board of Directors is committed to maintaining an independent Board, and for many years a majority of the Board has been comprised of independent directors. It has further been the practice of the Company to separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. The Chief Executive Officer is responsible for setting the strategic direction for

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the Company and the day-to-day leadership and performance of the Company. The Chairman of the Board facilitates communication among the independent directors and between the independent directors and the Chief Executive Officer, presides over meetings of the full Board (including executive sessions) and runs the agenda of such meetings. The Board believes that the separation of the duties of the Chief Executive Officer and the Chairman of the Board eliminates any inherent conflict of interest that may arise when the roles are combined, and that an independent director can best provide the necessary leadership and objectivity required as Chairman of the Board.

Board Authority for Risk Oversight

The Board has ultimate authority and responsibility for overseeing risk management of the Company. The Board monitors, reviews and reacts to material enterprise risks identified by management. The Board receives specific reports from executive management on financial, credit, liquidity, interest rate, capital, operational, legal compliance and reputation risks and the degree of exposure to those risks. The Board helps ensure that management is properly focused on risk by, among other things, reviewing and discussing the performance of senior management and business line leaders.

Several Board committees are responsible for risk oversight in specific areas. The Audit Committee oversees financial, accounting and internal control risk management policies. The Audit Committee also approves the independent auditor and its annual audit plan. The Audit Committee reports periodically to the Board on the effectiveness of risk management processes in place and the overall risk assessment of the Company's activities. The Compensation Committee assesses and monitors risks in the Company's compensation program. The Loan Committee reviews risks in our lending activities. The Investment Committee periodically assesses the risks of our investment portfolio.

The Committees of the Board

The Board delegates portions of its responsibilities to committees comprised of Board members. These standing committees of the Board meet at regular intervals to attend to their particular areas of responsibility. The Board has five (5) standing committees: the Audit Committee, the Compensation Committee, the Loan Committee, the Investment Committee, and the CRA Committee.

Nominating Committee

The Nominating Committee identifies individuals qualified to become Board members and makes recommendations to the full Board of candidates for election to the Board, leads the Board in an annual review of its performance, and recommends director appointments to Board committees. The Company's Nominating Committee was established in 2010, and the committee charter (the Charter) was approved in 2010. A copy of the Charter is included as Appendix A to this Proxy Statement. The Nominating Committee, consisting of eight (8) independent Directors, makes recommendations to the Board regarding the Board's composition and structure, nominations for elections of Directors, and policies and processes regarding principles of corporate governance to ensure the Board's compliance with its fiduciary duties to the Company and its shareholders. The Nominating Committee reviews the qualifications of, and recommends to the Board, candidates as additions, or to fill Board vacancies, if any were to occur during the year.

The Nominating Committee determines the required selection criteria and qualifications of Director nominees based upon the Company's needs at the time nominees are considered. In general, Directors are expected to possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Company's shareholders. In addition to the foregoing considerations, the Nominating Committee considers criteria such as strength of character and leadership skills, general business acumen and experience, broad knowledge of the banking industry, number of other board seats, and willingness to commit the necessary time to ensure an active board whose members work well together and possess the collective knowledge and expertise required by the Board. The Nominating Committee considers these criteria for all candidates regardless of whether a candidate was identified by the Nominating Committee, by shareholders, or by any other source.

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The goal of the Nominating Committee is to seek to achieve a balance of knowledge and experience on the Company's Board. To this end, the Nominating Committee seeks nominees with the highest professional and personal ethics and values, an understanding of the Company's business and industry, diversity of business experience, expertise and backgrounds, a high level of education, broad-based business acumen and the ability to think strategically. The composition of the current Board reflects diversity in business and professional experience, skills, and gender. The Nominating Committee reviews the effectiveness of its charter in achieving the goals of the Nominating Committee as stated therein annually.

The members of the Nominating Committee are Messrs. Barton, Gilbert, Haidlen, Jones, Leonard, Schrimp, Titus and Vaughan. Mr. Gilbert is the Chairman of the Nominating Committee. The Committee met one (1) time in 2012. The Board has determined that all members of the Nominating Committee are independent under the applicable rules and regulations of The NASDAQ Stock Market.

Audit Committee

We have an Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended, (the Exchange Act). The Audit Committee assists the Board in fulfilling the Board's responsibilities for general oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the independent auditors' qualifications and independence, the performance of our internal audit function and independent auditors, and risk assessment and risk management. In addition, the Audit Committee reviews and discusses the annual audited financial statements with management and the independent auditors prior to finalizing and filing the Annual Report on Form 10-K with the SEC; reviews and discusses with management and the independent auditors any significant changes, significant deficiencies and material weaknesses regarding internal controls over financial reporting required by the Sarbanes-Oxley Act of 2002, oversees the internal audit function and the audits directed under its auspices, and establishes policies to ensure all non-audit services provided by the independent auditors are approved prior to work being performed. The Audit Committee also prepares the Audit Committee report for inclusion in the annual proxy statement; annually reviews the Audit Committee charter and the committee's performance; appoints, evaluates and determines the compensation of our independent auditors; reviews and approves the scope of the annual audit, the audit fee and the financial statements; reviews our disclosure controls and procedures, internal controls, internal audit function, and corporate policies with respect to financial information and earnings guidance; oversees investigations into complaints concerning financial matters; and reviews other risks that may have a significant impact on our financial statements. The Audit Committee works closely with management as well as our independent auditors. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from the Company to retain, outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties.

The Board of Directors has adopted a written charter for the Audit Committee. The members of the Audit Committee are Messrs. Barton, Schrimp, Haidlen, Leonard, Titus and Vaughan. Mr. Schrimp is the Chairman of the Audit Committee. The Audit Committee held eight (8) meetings during fiscal 2012.

The Board of Directors has determined that Mr. Schrimp has: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal control over financial reporting; and (v) an understanding of audit committee functions.

Therefore, the Board has determined that Mr. Schrimp meets the definition of "audit committee financial expert" under the applicable rules and regulations of the SEC and is "financially sophisticated" as defined by the applicable rules and regulations of The NASDAQ Stock Market. The designation of a person as an audit committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933, as amended. The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other audit committee member or any other director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

The Board has determined that all members of the Audit Committee are "independent" as that term is defined in Rule 5605(c)(2) of The NASDAQ Stock Market Rules and Rule 10A-3(b)(1) promulgated under the Exchange Act.

The Audit Committee Report for 2012 appears on page 34 of this Proxy Statement.

Compensation Committee

The Compensation Committee establishes our compensation policy, determines the compensation paid to our executive officers and non-employee directors, recommends executive incentive compensation plans and equity-based plans and approves other compensation plans and retirement plans, and performs the various reviews required by the regulations enacted pursuant to the American Recovery and Reinvestment Act of 2009 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Compensation Committee approves corporate goals related to the compensation of the executive officers, evaluates the executive officers' performance and compensates the executive officers based on this evaluation. Messrs. Barton, Gilbert, Haidlen, Jones, Leonard, Schrimp, Titus and Vaughan are members of the Compensation Committee. Mr. Schrimp is the Chairman of the Compensation Committee. The Compensation Committee held four (4) meetings during fiscal 2012. The Board has determined that all members of the Compensation Committee are independent as that term is defined in Rule 5605(c)(2) of The NASDAQ Stock Market Rules.

Loan Committee

The Loan Committee monitors the activities of our lending function utilizing information presented to it by management at regular meetings of the committee. This includes, but is not limited to, the review of trends in outstanding credit relationships, key quality measures, significant borrowing relationships, large problem loans, industry concentrations, all significant lending policies, and the adequacy of the allowance for loan losses. The Loan Committee also reviews lending-related reports from regulators, auditors, and internal personnel.

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Each member of the Board of Directors serves on the Loan Committee, and Mr. Barton is the Chairman of the Loan Committee. The Loan Committee held twenty-three (23) meetings during fiscal 2012.

Investment Committee

The Investment Committee reviews, identifies and classifies our assets based on credit risk, in accordance with regulatory guidelines. The Committee is also responsible for reviewing asset valuation and classification policies, as well as developing and monitoring asset disposition. In addition, the Committee reviews and monitors the Company's investment portfolio, liquidity position and the risk of our interest-earning assets in comparison to its interest-bearing liabilities.

Messrs. Courtney, Gilbert, Jones, Leonard, Martin, Titus and Vaughan serve on the Investment Committee, and Mr. Leonard is the Chairman of the Investment Committee. The Investment Committee held four (4) meetings during fiscal 2012.

CRA Committee

The CRA Committee is responsible for oversight of our performance under the requirements of the Federal Community Reinvestment Act of 1977 and similar state law requirements. Messrs. Barton, Courtney, Gilbert, Jones, Martin and Titus serve on the CRA Committee, and Mr. Titus is the Chairman of the CRA Committee. The CRA Committee held three (3) meetings during fiscal 2012.

Section 16(a) Beneficial Ownership Reporting

Section 16(a) of the Securities Exchange Act required our officers and directors to file reports of ownership and changes of ownership with the SEC. Our officers and directors are required by SEC regulation to furnish us with copies of all Section 16(a) forms so filed. As a matter of practice, our administrative staff assists our executive officers and Directors in preparing initial ownership reports and reporting ownership changes, and typically files these reports on their behalf. Based solely on a review of the copies of the reports furnished to us, or written representations that no reports were required to be filed, we believe that during the fiscal year ended December 31, 2012 all Section 16(a) filing requirements applicable to our directors, officers, and greater than 10% beneficial owners, if any, were complied with, except as otherwise disclosed in the Annual Report on Form 10-K that we filed with the SEC on March 28, 2013.

Certain Relationship and Related Transactions

Some of our Directors and the companies with which they are associated are our customers, and we expect to have banking transactions with them in the future. All loans and commitments to lend were made in the ordinary course of our business and were in compliance with applicable laws. Terms, including interest rates and collateral, were substantially the same as those prevailing for comparable transactions with other persons of similar creditworthiness. These transactions do not involve credits which are different than extended to non-Board customers more than a normal risk of collectability or present other unfavorable features. We have a strong policy regarding review of the adequacy and fairness of Bank loans to directors and officers. Section 402 of the Sarbanes-Oxley Act of 2002 generally prohibits a company from extending credit,

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arranging for the extension of credit or renewing an extension of credit in the form of a personal loan one of its officers or directors. There are several exceptions to this general prohibition, including loans made by an FDIC insured depository institution that is subject to the insider lending restrictions of the Federal Reserve Act. All loans to our directors and officers comply with the Federal Reserve Act and the Federal Reserve Board's Regulation O and, therefore, are excepted from the prohibitions of Section 402.

From time to time, some of our Directors, directly or through affiliates, may perform services for the Bank. These activities are performed in the ordinary course of the Bank's business and are subject to strict compliance with the policies outlined below. Typically, such services relate to routine work on Bank properties, such as, for example, light construction or interior design work at new or existing branches. Except for \$301,925 paid in 2012 by the Company to J. Haidlen Design, a company affiliated with Mr. Haidlen's daughter, for certain Bank branch construction and design work, none of these activities is material for purposes of Item 404(A) of Regulation S-K under the Exchange Act.

Policies and Procedures for Approving Related Party Transactions

Our Board of Directors is committed to the highest levels of honesty and integrity and, as such, takes related party transactions very seriously and adheres to very strict policies and procedures that exceed typical practices of other boards of directors to handle related party transaction issues.

A related party transaction is a transaction between the Company or the Bank and any related person, including any transaction requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. Generally, a related person is (i) any person who is, or was at any time since the beginning of the Company's last fiscal year, a director or executive officer of the Company or the Bank or a nominee to become a director of the Company or the Bank; (ii) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; (iii) any immediate family member (i.e., any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law), and any person (other than a tenant or employee) sharing the household, of any of the persons described in (i) or (ii); and (iv) any firm, corporation or other entity in which any of the persons described in (i), (ii) or (iii) is employed or is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

The general policy of the Board of Directors is that each Director and prospective director must disclose any related party transaction to the Board before such transaction may occur and, furthermore, that such transaction may thereafter be consummated if and only if (i) a majority of non-interested directors approves such transaction, and (ii) such transaction is on terms comparable to those that would be obtained in arm's length dealings with an unrelated third party. A non-interested director is a director who is not directly or indirectly involved in the related party transaction. A director is deemed to be not directly involved if the director is not involved in the transaction, and a director is deemed to be not indirectly involved if the transaction does not involve any of the director's immediate family members or any firm, corporation or other entity of which the director is an employee, partner, principal or in a similar position or a 10% or greater beneficial owner.

In making its decision on whether or not to approve a transaction, the Board also considers the benefits the Company or the Bank would receive in the transaction; the impact the transaction would have on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to our employees generally.

In addition, the Board has stated that it is the responsibility of each director and prospective director to disclose to the Board any relationship that may not necessarily involve a related party transaction but that could impair his or her independence or pose any conflict of interest with the Company or the Bank, including (i) affiliations of a director or prospective director; (ii) affiliations of an immediate family member (i.e., child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law) or anyone other person, other than a domestic employee, who shares a director or prospective director's home; and (iii) affiliations of a director or prospective director with any Company or Bank (a) customer, supplier, distributor, dealer, reseller or other channel partner, (b) lender, outside legal counsel, investment banker or consultant, (c) significant shareholder, (d) charitable or not-for-profit institution that has received or receives donations from the Company or the Bank, or (e) competitor or other person having an interest adverse to us.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee of the Board of Directors has responsibility for establishing, implementing and continually monitoring the compensation structure, policies and programs of the Company. The individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during 2012, as well as the other individuals included in the Summary Compensation Table, are referred to as the named

executive officers.

The Compensation Committee is responsible for assessing and approving the total compensation structure paid to the Chief Executive Officer and the other executive officers, including the named executive officers. Thus, the Compensation Committee is responsible for determining whether the compensation paid to each of these executive officers is fair, reasonable and competitive, and whether it serves the interests of the Company's shareholders.

This Compensation Discussion and Analysis identifies the Company's current compensation philosophy and objectives and describes the various methodologies, policies and practices for establishing and administering the compensation programs of the named executive officers.

Overview

Even though the economy remained challenging in 2012, our financial performance improved year over year as we continued to increase profitability and our performance continued to exceed that of many peer institutions. Our stock price also increased during 2012, reflecting our improved performance. Nevertheless, given the difficulty in assessing the timing and pace of the economic recovery cycle, the Company continues to manage executive compensation conservatively.

The objectives of the Company's executive compensation program are to align a portion of each executive officer's total compensation with the annual and long-term performance of the Company and the interests of the Company's shareholders. The Compensation Committee continues to review our compensation program to seek to achieve shareholder value and continue to motivate and retain our senior management.

The Company considered the shareholder vote approving the Company's executive compensation for 2012 in making its proposal for 2013.

Overview of Compensation Philosophy

Our executive compensation policy is to provide the Company's executive officers with compensation opportunities which are based upon their personal performance, the annual and long-term performance of the Company, the interests of the Company's shareholders and their contribution to that performance, while maintaining a level of compensation that is competitive enough to attract and retain highly skilled individuals.

The Compensation Committee believes that the most effective executive compensation programs are those that align the interests of each executive with those of the Company's shareholders. The Compensation Committee believes that a properly structured compensation program will attract and retain talented individuals and motivate them to achieve specific short-term and long-term strategic objectives. Over the years, we have been very successful in retaining a strong core group of executive officers, and we have been providing growth and value for our shareholders. For this reason, an important objective of the Compensation Committee is to ensure that the compensation of our named executive officers is comparable to that of similar positions at other financial institutions that are similar to us in terms of size and geographic service area, so that we can continue to attract and retain executives and achieve our strategic objectives.

Each executive officer's compensation package is comprised of three elements: (i) base salary that is competitive with the market and reflects individual performance, (ii) annual variable performance awards payable in cash and tied to the Company's achievement of annual financial, strategic and operational objectives in addition to individual contributions to these objectives, and (iii) long-term stock-based incentive awards designed to strengthen the mutual interest of the Company's executive officers and its shareholders. As an officer's level of responsibility increases, a greater proportion of his or her total compensation will be dependent upon the Company's financial performance and stock price rather than base salary.

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Stock awards, such as stock options and/or restricted stock, are available to reward the long-term efforts of management and to retain management. Equity awards can also increase our management team's ownership stake in the Company, further aligning the interests of the executives with those of our shareholders. We also consider other forms of executive pay, including salary continuation benefits, as a means to attract and retain our executive officers, including the named executive officers.

The Company and the Compensation Committee believe our compensation philosophy, policies and objectives outlined within this Compensation Discussion and Analysis are appropriately designed to allow us to effectively compensate our employees both during times of positive performance and in times of weak performance.

Compensation Program Objectives and Rewards

The Company's compensation and benefits programs are driven by our business environment and are designed to enable us to achieve our mission and adhere to the Company values.

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The programs objectives are to foster our position as a leading community bank in our service areas; attract, engage and retain a qualified workforce; maintain an effective administrative structure in line with our growth and performance; and incentivize our employees to reach our business objectives.

The guiding principles behind our programs are to promote and maintain a high performance banking organization; continue to invest in our administration and operations; remain competitive in our marketplace for talent; and balance our compensation costs with our desire to provide value to our employees and shareholders,.

We measure the success of our programs by our overall business performance and employee engagement; our ability to attract and retain key talent; our costs and business risks and return; and our ability to accommodate further growth in our organization using the existing administrative infrastructure.

All compensation and benefits for our named executive officers reflect, as their primary purpose, our need to attract, retain and motivate th