

PLUMAS BANCORP  
Form 10-Q  
November 02, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2009**

**TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**  
**COMMISSION FILE NUMBER: 000-49883**  
**PLUMAS BANCORP**  
(Exact Name of Registrant as Specified in Its Charter)

**California**  
(State or Other Jurisdiction of Incorporation or Organization)

**75-2987096**  
(I.R.S. Employer Identification No.)

**35 S. Lindan Avenue, Quincy, California**  
(Address of Principal Executive Offices)

**95971**  
(Zip Code)

Registrant's Telephone Number, Including Area Code **(530) 283-7305**

Indicated by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 30, 2009.  
4,776,339 shares

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED BALANCE SHEET**

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**PART I FINANCIAL INFORMATION**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**ITEM 4. CONTROLS AND PROCEDURES**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

**ITEM 1A RISK FACTORS**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

**SIGNATURES**

**EXHIBIT INDEX**

**Exhibit 31.1**

**Exhibit 31.2**

**Exhibit 32.1**

**Exhibit 32.2**

---

**Table of Contents**

**PART I FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**PLUMAS BANCORP**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(Unaudited)**  
(In thousands, except share data)

|   | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|-----------------------------------|------------------------------|
| <b>Assets</b>   |                                   |                              |
| Cash and due from banks   | \$ 35,158                         | \$ 18,791                    |
| Federal funds sold  |                                   |                              |
| Cash and cash equivalents   | 35,158                            | 18,791                       |
| Investment securities (fair value of \$76,404 at September 30, 2009 and \$38,606 at December 31, 2008 Note 3)           | 75,777                            | 38,374                       |
| Loans, less allowance for loan losses of \$8,350 at September 30, 2009 and \$7,224 at December 31, 2008 (Notes 4 and 5) | 335,838                           | 359,072                      |
| Premises and equipment, net   | 14,838                            | 15,764                       |
| Intangible assets, net  | 691                               | 821                          |
| Bank owned life insurance   | 10,023                            | 9,766                        |
| Real estate and vehicles acquired through foreclosure   | 15,584                            | 4,277                        |
| Accrued interest receivable and other assets  | 14,659                            | 10,310                       |
| Total assets  | \$ 502,568                        | \$ 457,175                   |
| <b>Liabilities and Shareholders Equity</b>  |                                   |                              |
| Deposits:   |                                   |                              |
| Non-interest bearing  | \$ 110,502                        | \$ 112,783                   |
| Interest bearing  | 313,436                           | 258,710                      |
| Total deposits  | 423,938                           | 371,493                      |
| Short-term borrowings   | 20,000                            | 34,000                       |
| Accrued interest payable and other liabilities  | 6,648                             | 5,935                        |
| Junior subordinated deferrable interest debentures  | 10,310                            | 10,310                       |
| Total liabilities   | 460,896                           | 421,738                      |
| Commitments and contingencies (Note 5)  |                                   |                              |
| Shareholders equity:  |                                   |                              |
| Serial preferred stock, no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at September 30, 2009 | 11,574                            |                              |
|   | 5,907                             | 5,302                        |

Edgar Filing: PLUMAS BANCORP - Form 10-Q

Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at September 30, 2009 and 4,775,339 shares at December 31, 2008

|   |            |            |
|---|------------|------------|
| Retained earnings                               | 23,713     | 29,818     |
| Accumulated other comprehensive income (Note 7) | 478        | 317        |
| Total shareholders' equity                      | 41,672     | 35,437     |
| Total liabilities and shareholders' equity      | \$ 502,568 | \$ 457,175 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents

**PLUMAS BANCORP**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
**(Unaudited)**

(In thousands, except per share data)

|  | <b>For the Three Months<br/>Ended September 30,</b> |              | <b>For the Nine Months<br/>Ended September 30,</b> |               |
|--|---|--------------|--|---------------|
|  | <b>2009</b>   | <b>2008</b>  | <b>2009</b>  | <b>2008</b>   |
| <b>Interest Income:</b>  |   |              |  |               |
| Interest and fees on loans                                     | \$ 5,090  | \$ 5,978     | \$ 15,556  | \$ 18,169     |
| Interest on investment securities:                             |   |              |  |               |
| Taxable  | 440   | 324          | 1,185  | 1,092         |
| Exempt from Federal income taxes                               | 123   | 128          | 360  | 383           |
| Interest on Federal funds sold                                 |   | 1            |  | 3             |
| <b>Total interest income</b>                                   | <b>5,653</b>  | <b>6,431</b> | <b>17,101</b>                                      | <b>19,647</b> |
| <b>Interest Expense:</b>                                       |   |              |  |               |
| Interest on deposits   | 810   | 975          | 2,350  | 3,646         |
| Interest on short-term borrowings                              | 21  | 79           | 56   | 174           |
| Interest on junior subordinated deferrable interest debentures | 84  | 144          | 294  | 473           |
| Other  | 2   | 4            | 6  | 13            |
| <b>Total interest expense</b>                                  | <b>917</b>  | <b>1,202</b> | <b>2,706</b>                                       | <b>4,306</b>  |
| Net interest income before provision for loan losses           | 4,736   | 5,229        | 14,395   | 15,341        |
| <b>Provision for Loan Losses</b>                               | <b>2,550</b>  | <b>700</b>   | <b>11,300</b>                                      | <b>1,690</b>  |
| Net interest income after provision for loan losses            | 2,186   | 4,529        | 3,095  | 13,651        |
| <b>Non-Interest Income:</b>                                    |   |              |  |               |
| Service charges  | 970   | 1,015        | 2,823  | 2,937         |
| Earnings on Bank owned life insurance policies                 | 108   | 107          | 323  | 314           |
| Impairment loss on investment security                         |   | (415)        |  | (415)         |
| Other  | 457   | 309          | 895  | 946           |
| <b>Total non-interest income</b>                               | <b>1,535</b>  | <b>1,016</b> | <b>4,041</b>                                       | <b>3,782</b>  |
| <b>Non-Interest Expenses:</b>                                  |   |              |  |               |
| Salaries and employee benefits                                 | 2,827   | 2,799        | 8,417  | 8,265         |
| Occupancy and equipment  | 903   | 939          | 2,836  | 2,873         |
| Other  | 2,013   | 1,247        | 5,788  | 3,811         |
| <b>Total non-interest expenses</b>                             | <b>5,743</b>  | <b>4,985</b> | <b>17,041</b>                                      | <b>14,949</b> |
| Income (loss) before income taxes                              | (2,022)   | 560          | (9,905)  | 2,484         |

|   |            |         |            |          |
|---|------------|---------|------------|----------|
| <b>Provision (Benefit) for Income Taxes</b>                 | (882)      | 170     | (4,258)    | 822      |
| Net income (loss)   | \$ (1,140) | \$ 390  | \$ (5,647) | \$ 1,662 |
| <b>Preferred Stock Dividends and Discount<br/>Accretion</b> | (171)      |         | (458)      |          |
| Net income (loss) available to common<br>shareholders       | \$ (1,311) | \$ 390  | \$ (6,105) | \$ 1,662 |
| Basic earnings (loss) per share (Note 6)                    | \$ (0.27)  | \$ 0.08 | \$ (1.28)  | \$ 0.34  |
| Diluted earnings (loss) per share (Note 6)                  | \$ (0.27)  | \$ 0.08 | \$ (1.28)  | \$ 0.34  |
| Common dividends per share                                  | \$         | \$      | \$         | \$ 0.16  |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents**

**PLUMAS BANCORP**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**  
(In thousands)

|   | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2009</b>  | <b>2008</b> |
| <b>Cash Flows from Operating Activities:</b>  |  |             |
| Net income (loss)   | \$ (5,647)   | \$ 1,662    |
| Adjustments to reconcile net income to net cash provided by operating activities:                           |  |             |
| Provision for loan losses   | 11,300   | 1,690       |
| Change in deferred loan origination costs/fees, net   | (65)   | 235         |
| Depreciation and amortization   | 1,468  | 1,475       |
| Stock-based compensation expense  | 193  | 218         |
| Amortization of investment security premiums  | 174  | 46          |
| Accretion of investment security discounts  | (42)   | (43)        |
| Impairment loss on investment security  |  | 415         |
| Net loss on disposal/sale of premises and equipment   |  | 13          |
| Net loss on sale of vehicles owned  | 42   | 17          |
| Earnings on Bank owned life insurance policies  | (257)  | (252)       |
| Provision for losses on other real estate   | 887  | 39          |
| Net loss on sale of real estate   | 157  |             |
| Increase in accrued interest receivable and other assets  | (4,673)  | (97)        |
| Increase (decrease) in accrued interest payable and other liabilities                                       | 637  | (751)       |
| Net cash provided by operating activities   | 4,174  | 4,667       |
| <b>Cash Flows from Investing Activities:</b>  |  |             |
| Proceeds from matured and called available-for-sale investment securities                                   | 8,000  | 13,475      |
| Proceeds from matured and called held-to-maturity investment securities                                     | 1,729  | 100         |
| Purchases of available-for-sale investment securities   | (51,132)   | (2,990)     |
| Purchases of held-to-maturity investment securities   | (1,520)  |             |
| Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities | 5,662  | 2,190       |
| Net increase in loans   | (2,208)  | (8,500)     |
| Proceeds from sale of other vehicles  | 219  | 298         |
| Proceeds from sale of other real estate   | 1,595  |             |
| Purchase of premises and equipment  | (201)  | (2,425)     |
| Net cash (used in ) provided by investing activities  | (37,856)   | 2,148       |

Continued on next page.



Table of Contents

**PLUMAS BANCORP**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(Unaudited)**  
(In thousands)  
(Continued)

|   | <b>For the Nine Months<br/>Ended September 30,</b> |                      |
|---|--|----------------------|
|   | <b>2009</b>  | <b>2008</b>          |
| <b>Cash Flows from Financing Activities:</b>                        |  |                      |
| Net increase in demand, interest bearing and savings deposits       | \$ 41,944  | \$ 17,026            |
| Net increase (decrease) in time deposits                            | 10,501   | (25,751)             |
| Net (decrease) increase in short-term borrowings                    | (14,000)   | 19,500               |
| Net proceeds from exercise of stock options                         | 5  | 21                   |
| Payment of cash dividends on common stock                           |  | (770)                |
| Payment of cash dividends on preferred stock                        | (325)  |                      |
| Issuance of preferred stock, net of discount                        | 11,517   |                      |
| Issuance of common stock warrant                                    | 407  |                      |
| Repurchase and retirement of common stock                           |  | (945)                |
| <br>Net cash provided by financing activities                       | <br>50,049   | <br>9,081            |
| <br>Increase in cash and cash equivalents                           | <br>16,367   | <br>15,896           |
| <b>Cash and Cash Equivalents at Beginning of Year</b>               | <b>18,791</b>                                      | <b>13,207</b>        |
| <br><b>Cash and Cash Equivalents at End of Period</b>               | <br><b>\$ 35,158</b>                               | <br><b>\$ 29,103</b> |
| <br><b>Supplemental Disclosure of Cash Flow Information:</b>        |  |                      |
| Cash paid during the period for:                                    |  |                      |
| Interest expense  | \$ 2,693   | \$ 4,639             |
| Income taxes  | \$ 65  | \$ 1,090             |
| <br><b>Non-Cash Investing Activities:</b>                           |  |                      |
| Real estate and vehicles acquired through foreclosure               | \$ 14,207  | \$ 2,229             |
| Net change in unrealized gain/loss on available-for-sale securities | \$ 161   | \$ 174               |
| See notes to unaudited condensed consolidated financial statements. |  |                      |

**Table of Contents**

**PLUMAS BANCORP**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. GENERAL**

During 2002, Plumas Bancorp (the Company) was incorporated as a bank holding company for the purpose of acquiring Plumas Bank (the Bank) in a one bank holding company reorganization. This corporate structure gives the Company and the Bank greater flexibility in terms of operation expansion and diversification. The Company formed Plumas Statutory Trust I (Trust I) for the sole purpose of issuing trust preferred securities on September 26, 2002. The Company formed Plumas Statutory Trust II (Trust II) for the sole purpose of issuing trust preferred securities on September 28, 2005.

The Bank operates thirteen branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Loyalton, Portola, Quincy, Redding, Susanville, Tahoe City, Truckee and Westwood. In addition to its branch network, the Bank operates a commercial lending office in Reno, Nevada and a lending office specializing in government-guaranteed lending in Auburn, California. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to applicable legal limits. The Bank is participating in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee Program. Under the program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage under the FDIC's general deposit insurance rules.

**2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position at September 30, 2009 and December 31, 2008 and its results of operations for the three-month and nine-month periods ended September 30, 2009 and 2008 and its cash flows for the nine-month periods ended September 30, 2009 and 2008. Certain reclassifications have been made to prior period's balances to conform to classifications used in 2009.

The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2008 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2009 may not necessarily be indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

Management has determined that because all of the commercial banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No single customer accounts for more than 10% of the revenues of the Company or the Bank.

The Company evaluated subsequent events for potential recognition and/or disclosure through November 2, 2009, the date the consolidated financial statements were issued.



**Table of Contents****3. INVESTMENT SECURITIES**

The amortized cost and estimated fair value of investment securities at September 30, 2009 and December 31, 2008 consisted of the following:

**Available-for-Sale**

|   |               | September 30, 2009 |             |               |
|---|---------------|--------------------|-------------|---------------|
|   | Amortized     | Gross              | Gross       | Estimated     |
|   | Cost          | Unrealized         | Unrealized  | Fair          |
|   |               | Gains              | Losses      | Value         |
| Debt securities:  |               |                    |             |               |
| U.S. Treasury securities  | \$ 1,067,000  |                    | \$ (17,000) | \$ 1,050,000  |
| U.S. Government agencies  | 40,839,000    | \$ 378,000         | (36,000)    | 41,181,000    |
| U.S. Government agencies collateralized by mortgage obligations | 20,611,000    | 504,000            |             | 21,115,000    |
| Corporate debt securities                                       | 85,000        |                    | (15,000)    | 70,000        |
|   | \$ 62,602,000 | \$ 882,000         | \$ (68,000) | \$ 63,416,000 |

Net unrealized gains on available-for-sale investment securities totaling \$814,000 were recorded, net of \$336,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at September 30, 2009. There were no sales of available-for-sale investment securities during the nine months ended September 30, 2009.

|   |               | December 31, 2008 |             |               |
|---|---------------|-------------------|-------------|---------------|
|   | Amortized     | Gross             | Gross       | Estimated     |
|   | Cost          | Unrealized        | Unrealized  | Fair          |
|   |               | Gains             | Losses      | Value         |
| Debt securities:  |               |                   |             |               |
| U.S. Treasury Securities  | \$ 1,498,000  | \$ 10,000         | \$          | \$ 1,508,000  |
| U.S. Government agencies  | 10,001,000    | \$ 391,000        |             | 10,392,000    |
| U.S. Government agencies collateralized by mortgage obligations | 12,183,000    | 189,000           | (15,000)    | 12,357,000    |
| Corporate debt securities                                       | 1,585,000     | 1,000             | (36,000)    | 1,550,000     |
|   | \$ 25,267,000 | \$ 591,000        | \$ (51,000) | \$ 25,807,000 |

Net unrealized gains on available-for-sale investment securities totaling \$540,000 were recorded, net of \$223,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at December 31, 2008. There were no sales of available-for-sale investment securities during the year ended December 31, 2008.

During the third quarter of 2008, due to the significant decline in the price a \$500,000 corporate debt security issued by Lehman Brothers Holdings Inc., the Bank recorded an other than temporary impairment write down of \$415,000 on this security.

**Table of Contents****Held-to-Maturity**

|  | Amortized<br>Cost | September 30, 2009           |                               | Estimated<br>Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
|  |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                            |
| Debt securities:                                 |                   |                              |                               |                            |
| Obligations of states and political subdivisions | \$ 12,361,000     | \$ 627,000                   | \$                            | \$ 12,988,000              |

|  | Amortized<br>Cost | December 31, 2008            |                               | Estimated<br>Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
|  |                   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                            |
| Debt securities:                                 |                   |                              |                               |                            |
| Obligations of states and political subdivisions | \$ 12,567,000     | \$ 278,000                   | \$ (46,000)                   | \$ 12,799,000              |

There were no sales or transfers of held-to-maturity investment securities during the nine months ended September 30, 2009 or during the year ended December 31, 2008.

**Investment securities with unrealized losses at September 30, 2009 are summarized and classified according to the duration of the loss period as follows:**

|                           | Less than 12 Months |                      | 12 Months or More |                      | Total         |                      |
|---------------------------|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|                           | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| Debt securities:          |                     |                      |                   |                      |               |                      |
| U.S. Treasury securities  | \$ 1,050,000        | \$ 17,000            |                   |                      | \$ 1,050,000  | \$ 17,000            |
| U.S. Government agencies  | 14,059,000          | 36,000               |                   |                      | 14,059,000    | 36,000               |
| Corporate debt securities |                     |                      | \$ 70,000         | \$ 15,000            | 70,000        | 15,000               |
|                           | \$ 15,109,000       | \$ 53,000            | \$ 70,000         | \$ 15,000            | \$ 15,179,000 | \$ 68,000            |

**Investment securities with unrealized losses at December 31, 2008 are summarized and classified according to the duration of the loss period as follows:**

|   | Less than 12 Months |                      | 12 Months or More |                      | Total         |                      |
|---|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|   | Fair<br>Value       | Unrealized<br>Losses | Fair<br>Value     | Unrealized<br>Losses | Fair<br>Value | Unrealized<br>Losses |
| Debt securities:  |                     |                      |                   |                      |               |                      |
| Obligations of states and political subdivisions                | \$ 1,366,000        | \$ 39,000            | \$ 809,000        | \$ 7,000             | \$ 2,175,000  | \$ 46,000            |
| U.S. Government agencies collateralized by mortgage obligations |                     |                      | 3,419,000         | 15,000               | 3,419,000     | 15,000               |
| Corporate debt securities                                       |                     |                      | 1,050,000         | 36,000               | 1,050,000     | 36,000               |
|   | \$ 1,366,000        | \$ 39,000            | \$ 5,278,000      | \$ 58,000            | \$ 6,644,000  | \$ 97,000            |



**Table of Contents**

At September 30, 2009, the Company held 114 securities of which 14 were in a loss position. Of the securities in a loss position, 13 were in a loss position for less than twelve months and one was in a loss position and had been in loss position for twelve months or more. Of the 14 securities one is a U.S. Treasury security, 12 are obligations of U.S. Government agencies and one is a corporate debt securities. The unrealized losses relate principally to market rate fluctuations. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. Management has the ability and intent to hold securities classified as held to maturity until they mature, at which time the Company expects to receive full value for the securities. Furthermore, as of September 30, 2009, management also has the ability and intent to hold the securities classified as available for sale and currently impaired for a period of time sufficient for a recovery of cost. Based on the Company's evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of September 30, 2009 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at September 30, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

|  | Available-for-Sale |                            | Held-to-Maturity  |                            |
|--|--------------------|----------------------------|-------------------|----------------------------|
|  | Amortized<br>Cost  | Estimated<br>Fair<br>Value | Amortized<br>Cost | Estimated<br>Fair<br>Value |
| Within one year  | \$ 85,000          | \$ 70,000                  | \$ 41,000         | \$ 41,000                  |
| After one year through five years                        | 41,906,000         | 42,231,000                 | 3,133,000         | 3,273,000                  |
| After five years through ten years                       |                    |                            | 9,187,000         | 9,674,000                  |
|  | 41,991,000         | 42,301,000                 | 12,361,000        | 12,988,000                 |
| Investment securities not due at a single maturity date: |                    |                            |                   |                            |
| Government-guaranteed mortgage-backed securities         | 20,611,000         | 21,115,000                 |                   |                            |
|  | \$ 62,602,000      | \$ 63,416,000              | \$ 12,361,000     | \$ 12,988,000              |

Investment securities with amortized costs totaling \$74,838,000 and \$36,249,000 and estimated fair values totaling \$76,293,000 and \$37,056,000 at September 30, 2009 and December 31, 2008, respectively, were pledged to secure deposits, including public deposits and treasury, tax and loan accounts.

**Table of Contents****4. LOANS**

Outstanding loans are summarized below, in thousands:

|   | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---|-----------------------------------|------------------------------|
| Commercial                                    | \$ 37,578                         | \$ 42,528                    |
| Agricultural                                  | 40,760                            | 36,020                       |
| Real estate mortgage                          | 162,476                           | 151,943                      |
| Real estate construction and land development | 46,856                            | 73,820                       |
| Consumer                                      | 56,174                            | 61,706                       |
|   | 343,844                           | 366,017                      |
| Deferred loan costs, net                      | 344                               | 279                          |
| Allowance for loan losses                     | (8,350)                           | (7,224)                      |
|   | \$ 335,838                        | \$ 359,072                   |

Changes in the allowance for loan losses were as follows, in thousands:

|                                 | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| Balance, beginning of year      | \$ 7,224                          | \$ 4,211                         |
| Provision charged to operations | 11,300                            | 4,600                            |
| Losses charged to allowance     | (10,380)                          | (1,783)                          |
| Recoveries                      | 206                               | 196                              |
| Balance, end of period          | \$ 8,350                          | \$ 7,224                         |

The recorded investment in loans that were considered to be impaired totaled \$16,655,000 and \$26,444,000 at September 30, 2009 and December 31, 2008, respectively. The related allowance for loan losses for impaired loans was \$2,515,000 and \$3,132,000 at September 30, 2009 and December 31, 2008, respectively.

**5. COMMITMENTS AND CONTINGENCIES**

The Company is party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or result of operations of the Company taken as a whole.

In the normal course of business, there are various outstanding commitments to extend credit, which are not reflected, in the financial statements, including loan commitments of \$72,300,000 and \$78,787,000 and stand-by letters of credit of \$329,000 and \$534,000 at September 30, 2009 and December 31, 2008, respectively.

Of the loan commitments outstanding at September 30, 2009, \$6,959,000 are real estate construction loan commitments that are expected to fund within the next twelve months. The remaining commitments primarily relate to revolving lines of credit or other commercial loans, and many of these are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets.

Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and



accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The deferred liability related to the Company's stand-by letters of credit was not significant at September 30, 2009 or December 31, 2008.

**Table of Contents****6. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method has been applied to determine the dilutive effect of stock options in computing diluted earnings per share.

| (In thousands, except per share data)                       | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine months<br/>Ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2009</b>   | <b>2008</b> | <b>2009</b>  | <b>2008</b> |
| <b>Net Income (loss):</b>                                   |   |             |  |             |
| Net income (loss)   | \$ (1,140)  | \$ 390      | \$ (5,647)   | \$ 1,662    |
| Dividends accrued and discount accreted on preferred shares | (171)   |             | (458)  |             |
| Net income (loss) available to common shareholders          | \$ (1,311)  | \$ 390      | \$ (6,105)   | \$ 1,662    |
| <b>Earnings Per Share:</b>                                  |   |             |  |             |
| Basic earnings per share                                    | \$ (0.27)   | \$ 0.08     | \$ (1.28)  | \$ 0.34     |
| Diluted earnings per share                                  | \$ (0.27)   | \$ 0.08     | \$ (1.28)  | \$ 0.34     |
| <b>Weighted Average Number of Shares Outstanding:</b>       |   |             |  |             |
| Basic shares  | 4,776   | 4,809       | 4,776  | 4,830       |
| Diluted shares  | 4,776   | 4,820       | 4,776  | 4,852       |

Shares of common stock issuable under stock options for which the exercise prices were greater than the average market prices were not included in the computation of diluted earnings per share due to their antidilutive effect. When a net loss occurs, no difference in earnings per share is calculated because the conversion of potential common stock is anti-dilutive. Stock options not included in the computation of diluted earnings per share, due to their antidilutive effect, were 453,000 for the three months ended September 30, 2008 and 374,000 for the nine months ended September 30, 2008.

**7. COMPREHENSIVE INCOME**

Total comprehensive income (loss) for the three months ended September 30, 2009 and 2008 totaled \$(1,024,000) and \$491,000, respectively. Comprehensive income (loss) is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were \$116,000 and \$101,000 for the three months ended September 30, 2009 and 2008, respectively, together with net income (loss).

Total comprehensive income (loss) for the nine months ended September 30, 2009 and 2008 totaled \$(5,486,000) and \$1,836,000 respectively. Comprehensive income (loss) is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were \$161,000 and \$174,000 for the nine months ended September 30, 2009 and 2008, respectively, together with net income (loss).

At September 30, 2009 and December 31, 2008, accumulated other comprehensive income totaled \$478,000 and \$317,000, respectively, and is reflected, net of taxes, as a component of shareholders' equity.

**Table of Contents****8. STOCK-BASED COMPENSATION**

In 2001 and 1991, the Company established Stock Option Plans for which 873,185 shares of common stock remain reserved for issuance to employees and directors and 469,219 shares are available for future grants under incentive and nonstatutory agreements as of September 30, 2009. The Company did not grant options during the nine months ended September 30, 2009. The Company granted 90,300 options during the nine months ended September 30, 2008. The weighted average grant date fair value of options granted for the nine months ended September 30, 2008 was \$2.54.

Compensation cost related to stock options recognized in operating results was \$64,000 and \$74,000 for the quarters ended September 30, 2009 and 2008, respectively. The associated future income tax benefit recognized was \$5,000 and \$6,000 for the quarters ended September 30, 2009 and 2008, respectively. Compensation cost related to stock options recognized in operating results was \$193,000 and \$218,000 for the nine months ended September 30, 2009 and 2008, respectively. Compensation expense is recognized over the vesting period on a straight-line basis. The associated future income tax benefit recognized was \$15,000 and \$18,000 for the nine months ended September 30, 2009 and 2008, respectively.

Excess tax benefits from the exercise of stock-based compensation awards are presented as a financing activity in the consolidated statement of cash flows.

The following table summarizes information about stock option activity for the nine months ended September 30, 2009:

|   |          | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(in years)</b> | <b>Intrinsic<br/>Value<br/>(in thousands)</b> |
|---|----------|--|---|---|
| Options outstanding at December 31, 2008  | 466,956  | \$ 13.38   |   |   |
| Options granted                           |          |  |   |   |
| Options exercised                         | (1,000)  | 5.43   |   |   |
| Options cancelled                         | (61,990) | 12.38  |   |   |
| Options outstanding at September 30, 2009 | 403,966  | \$ 13.56   | 5.0   | \$  |
| Options exercisable at September 30, 2009 | 262,031  | \$ 13.07   | 4.5   | \$  |
| Expected to vest after September 30, 2009 | 123,741  | \$ 14.45   | 5.9   | \$  |

The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the nine months ended September 30, 2009 was \$1,000 with the amount of cash received from the exercise of those stock options totaling \$5,000.

At September 30, 2009, there was \$360,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of options vested during the nine months ended September 30, 2009 was \$211,000.

**Table of Contents****9. INCOME TAXES**

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The realization of the net deferred tax assets is dependent upon the generation of sufficient taxable income. On a quarterly basis, the Company determines whether a valuation allowance is necessary. In doing so, management considers all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the net deferred tax asset will be realized and whether a valuation allowance is necessary. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a tax valuation allowance when it is more likely than not that a recorded tax benefit is not expected to be realized. The expense to create the tax valuation is recorded as an additional income tax expense in the period the tax valuation allowance is established. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the quarter ended September 30, 2009.

**10. FAIR VALUE MEASUREMENT**

## Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows:

|  | September 30, 2009 |                | December 31, 2008 |                |
|--|--------------------|----------------|-------------------|----------------|
|  | Carrying Amount    | Fair Value     | Carrying Amount   | Fair Value     |
| Financial assets:                                  |                    |                |                   |                |
| Cash and cash equivalents                          | \$ 35,158,000      | \$ 35,158,000  | \$ 18,791,000     | \$ 18,791,000  |
| Investment securities                              | 75,777,000         | 76,404,000     | 38,374,000        | 38,606,000     |
| Loans  | 335,838,000        | 338,337,000    | 359,072,000       | 363,811,000    |
| Bank owned life insurance                          | 10,023,000         | 10,023,000     | 9,766,000         | 9,766,000      |
| Accrued interest receivable                        | 2,123,000          | 2,123,000      | 2,063,000         | 2,063,000      |
| Financial liabilities:                             |                    |                |                   |                |
| Deposits   | \$ 423,938,000     | \$ 424,141,000 | \$ 371,493,000    | \$ 371,761,000 |
| Short-term borrowings                              | 20,000,000         | 20,000,000     | 34,000,000        | 34,000,000     |
| Junior subordinated deferrable interest debentures | 10,310,000         | 2,663,000      | 10,310,000        | 2,420,000      |
| Accrued interest payable                           | 500,000            | 500,000        | 487,000           | 487,000        |



**Table of Contents**

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 management to estimate the fair value of its financial instruments at September 30, 2009 and December 31, 2008:

**Cash and cash equivalents:** For cash and cash equivalents, 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:** For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values of loans held for sale, if any, are estimated using quoted market prices for similar loans. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The fair value of loans is adjusted for the allowance for loan losses. The fair value of accrued interest receivable approximates its fair value as adjusted for accrued interest on impaired loans.

The fair value of impaired loans is based on either the estimated fair value of underlying collateral or estimated cash flows, discounted at the loans effective rate. Assumptions regarding credit risk and cash flows are determined using available market information and specific borrower information.

**Bank owned life insurance:** The fair values of bank owned life insurance policies are based on current cash surrender values at each reporting date provided by the insurers.

**Deposits:** The fair values for demand 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 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 amount of the short-term borrowings approximates its fair value.

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

**Commitments to extend credit and letters of credit:** The fair value of commitments are estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit are primarily for variable rate loans and letters of credit. For these commitments, there is no significant difference between the committed amounts and their fair values and therefore, is not included in the table above.

**Table of Contents**

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non recurring basis as of September 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value based on the hierarchy:

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

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

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

|                               | Total Fair Value | Fair Value Measurements at September 30, 2009 Using                        |  |  |
|-------------------------------|------------------|--|--|--|
|                               |                  | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:                       |                  |  |  |  |
| Available-for-sale securities | \$ 63,416,000    | \$ 42,301,000  | \$ 21,115,000  | \$   |

The fair value of securities available for sale equals quoted market price, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. There were no changes in the valuation techniques used during 2009. Changes in fair market value are recorded in other comprehensive income.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

|                         | Total Fair Value | Fair Value Measurements at September 30, 2009 Using                        |   |  |
|-------------------------|------------------|--|---|--|
|                         |                  | Quoted Prices in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:                 |                  |  |   |  |
| Impaired loans          | \$ 9,128,000     | \$   | \$ 9,128,000  | \$   |
| Other real estate owned | 15,498,000       |  | 15,498,000  |  |
|                         | \$ 24,626,000    | \$   | \$ 24,626,000                                       | \$   |





**Table of Contents**

Impaired loans measured at fair value, all of which are measured for impairment using the fair value of the collateral as they are virtually all collateral dependent loans, had a principal balance of \$11,643,000 with a related valuation allowance of \$2,515,000 at September 30, 2009. There were no changes in the valuation techniques used during 2009. Declines in the collateral values of impaired loans during 2009 were \$3.6 million which was reflected as additional specific allocations of the allowance for loan losses and/or partial charge-offs of the impaired loan.

Other real estate owned is fair valued at the lower of cost or fair value based on property appraisals at the time of transfer and as appropriate thereafter, less estimated costs to sell. Estimated costs to sell OREO were based on standard market factors. Management periodically reviews OREO to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated costs to sell.

**11. RECENT ACCOUNTING DEVELOPMENTS**

**FASB Accounting Standards Codification (ASC or Codification):** In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-01 (formerly Statement No. 168), *Topic 105 Generally Accepted Accounting Principles FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered nonauthoritative. The Codification is effective for interim or annual reporting periods ending after September 15, 2009. We have made the appropriate changes to GAAP references in our financial statements.

**Measuring Liabilities at Fair Value:** In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value*. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. We are assessing the impact of ASU 2009-05 on our financial condition, results of operations, and disclosures.

**Accounting for Transfers of Financial Assets:** In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS 166 amends the derecognition accounting and disclosure guidance relating to SFAS 140. SFAS 166 eliminates the exemption from consolidation for QSPEs, it also requires a transferor to evaluate all existing QSPEs to determine whether it must be consolidated in accordance with SFAS 167. SFAS 166 is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. We are assessing the impact of SFAS 166 on our financial condition, results of operations, and disclosures.

**FASB Amends Disclosures about Fair Value of Financial Instruments:** In April 2009, the FASB issued ASC 825 (formerly FASB Staff Position (FSP) 107-1 and APB 28-1), *Interim Disclosures about Fair Value of Financial Instruments*. ASC 825 requires a public entity to provide disclosures about fair value of financial instruments in interim financial information. ASC 825 is effective for interim and annual financial periods ending after June 15, 2009. We adopted the provisions of ASC 825 on April 1, 2009 and the impact on our disclosures is more fully discussed in Note 10 Fair Value Measurement.

**Table of Contents**

**FASB Clarifies Other-Than-Temporary Impairment:** In April 2009, the FASB issued ASC 320 (formerly FSP FAS 115-2, FAS124-2 and EITF 99-20-2), *Recognition and Presentation of Other-Than-Temporary-Impairment*. ASC 320 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC 320, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. ASC 320 is effective for interim and annual periods ending after June 15, 2009. We adopted the provisions of ASC 320 on April 1, 2009. Details related to the adoption of ASC 320 and the impact on our disclosures is more fully discussed in Note 3 Investment Securities. The provisions of ASC 320 did not have an impact on our financial condition and results of operations.

**FASB Clarifies Application of Fair Value Accounting:** In April 2009, the FASB issued ASC 820 (formerly FSP FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. ASC 820 affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activity, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires an entity to disclose a change in valuation technique. ASC 820 is effective for interim and annual periods ending after June 15, 2009. We adopted the provisions of ASC 820 on April 1, 2009. The provisions of ASC 820 did not have a material impact on our financial condition and results of operations.

**PART I FINANCIAL INFORMATION**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Certain matters discussed in this Quarterly Report are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among others, (1) significant increases in competitive pressures in the financial services industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, maybe less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in regulatory environment; (5) loss of key personnel; (6) fluctuations in the real estate market; (7) changes in business conditions and inflation; (8) operational risks including data processing systems failures or fraud; and (9) changes in securities markets. Therefore, the information set forth herein should be carefully considered when evaluating the business prospects of Plumas Bancorp (the Company).

When the Company uses in this Quarterly Report the words anticipate, estimate, expect, project, intend, believe and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Quarterly Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and stockholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

**Table of Contents**

**INTRODUCTION**

The following discussion and analysis sets forth certain statistical information relating to the Company as of September 30, 2009 and December 31, 2008 and for the three and nine month periods ended September 30, 2009 and 2008. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto included in Plumas Bancorp's Annual Report filed on Form 10-K for the year ended December 31, 2008.

Plumas Bancorp trades on The NASDAQ Capital Market under the ticker symbol **PLBC**.

**COMMON STOCK CASH DIVIDEND**

As it is the Company's philosophy to pay dividends out of current period earnings, on April 24, 2009, the Company announced that it would be suspending its semi-annual common stock cash dividend for the first half of 2009. During 2008 the Company paid two semi-annual cash dividends to holders of common stock, the first was 16 cents per share paid on May 16, 2008 and the second was 8 cents per share paid on November 21, 2008. The Company's Board of Directors will continue to evaluate the payment of a semi-annual common stock cash dividend in future quarters, but does not anticipate paying a cash dividend in 2009.

**CRITICAL ACCOUNTING POLICIES**

There have been no changes to the Company's critical accounting policies from those disclosed in the Company's 2008 Annual Report to Shareholders on Form 10-K.

**OVERVIEW**

The Company recorded a net loss of \$5.65 million or (\$1.28) per share for the nine months ended September 30, 2009, down from net income of \$1.66 million or \$0.34 per share for the nine months ended September 30, 2008. This decline in earnings resulted from a decline in net interest income of \$946 thousand, an increase in the provision for loan losses of \$9.6 million, and an increase in non-interest expense of \$2.09 million. These items were partially offset by an increase of \$259 thousand in non-interest income and a \$5.08 million decrease in tax provision. The increase in the loan loss provision includes the effect of an increase in net loan charges-offs from \$1.0 million during the nine months ended September 30, 2008 to \$10.2 million during the current nine month period and reflects our evaluation of the required level of the allowance for loan losses necessary in the current economic environment. The increase in non-interest expense includes increases of \$722 thousand in FDIC assessments and an increase of \$848 thousand in the provision for OREO losses. Non-interest income during the 2008 period was adversely affected by a \$415 thousand impairment charge on an investment security. Related to the reduction in pre-tax earnings the provision (benefit) for income taxes declined by \$5.08 million from expense of \$822 thousand during the nine months ended September 30, 2008 to a benefit of \$4.26 million during the current nine month period.

Net income (loss) allocable to common shareholders declined from net income of \$1.66 million during the nine months ended September 30, 2008 to a net loss of \$6.10 million during the current nine month period. Included in the 2009 loss was the net loss described above of \$5.65 million and an additional \$458 thousand which represents dividends paid and accrued and the discount amortized on preferred stock.

Total assets increased from \$457.2 million at December 31, 2008 to \$502.6 million at September 30, 2009. Increases of \$16.4 million in cash and due from banks, \$37.4 million in investment securities, \$11.3 million in real estate and vehicles acquired through foreclosure and \$3.5 million in other assets was partially offset by a \$23.2 million decline in net loans. Primarily related to an increase in deposits from public agencies, deposits increased by \$52.4 million to \$423.9 million and related to the issuance of \$11.9 million in preferred stock under the government's Capital Purchase Program (CPP), shareholders' equity increased by \$6.2 million. Funds generated from the increase in deposits and the preferred stock issuance were utilized to fund the increase in investments and cash and to reduce short-term borrowings. Short-term borrowings declined by \$14 million from \$34 million at December 31, 2008 to \$20 million at September 30, 2009.

**Table of Contents**

The annualized return (loss) on average assets was (1.58)% for the nine months ended September 30, 2009 down from 0.50% for the same period in 2008. The annualized return (loss) on average common equity was (23.9)% for the nine months ended September 30, 2009 down from 5.9% for the same period in 2008.

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

**Net interest income before provision for loan losses.** Net interest income, on a nontax-equivalent basis, for the nine months ended September 30, 2009 was \$14.4 million, a decline of \$946 thousand from the \$15.3 million earned during the same period in 2008. Decreases in the yield on the Company's loan and investment portfolios and increases in the average balance of NOW and money market deposits and short-term borrowings were partially offset by: declines in the average balances and rates paid on time deposits; an increase in the average balance in the loan and investment portfolios; and a decline in the rate paid on short-term borrowings, NOW and savings deposits and junior subordinated debentures. Net interest margin for the nine months ended September 30, 2009 decreased 48 basis points, or 9%, to 4.61%, down from 5.09% for the same period in 2008.

Interest income decreased \$2.5 million or 13%, to \$17.1 million for the nine months ended September 30, 2009 primarily as a result of a decline in loan yield. Interest and fees on loans decreased \$2.6 million to \$15.6 million for the nine months ended September 30, 2009 as compared to \$18.2 million during the first nine months of 2008. The average rate earned on the Company's loan balances decreased 109 basis points to 5.77% during the first nine months of 2009 compared to 6.86% during the first nine months of 2008. The decline in loan yield reflects a large decline in market interest rates as illustrated by a decline in the prime interest rate from 7.25% at January 1, 2008 to 3.25% at September 30, 2009. Additionally, our nonperforming loans have significantly increased during the comparison periods. While nonperforming loans are included in the average balance of loans, the vast majority of these loans are not accruing interest. The result is a decrease in loan yield and a decrease in net interest margin. Partially offsetting the decline in yield was a 2% increase in the average balance of loans outstanding from \$354 million for the nine month period ended September 30, 2008 to \$360 million for the nine months ended September 30, 2009. The Company experienced a \$70 thousand increase in interest income on investment securities as a 43 basis point decline in yields from 4.03% during the 2008 period to 3.60% during the current nine month period was offset by an \$8.5 million increase in the average balance of investment securities.

Interest expense decreased \$1.6 million to \$2.7 million for the nine months ended September 30, 2009, down from \$4.3 million for the same period in 2008. This reduction relates to a decrease in the rates paid on our interest-bearing liabilities and a decrease in the average balances of our time deposits partially offset by an increase in the average balance of our NOW and money market accounts and short-term borrowings. Average time deposits declined by \$13 million, and the average rate paid on these deposits declined by 131 basis points from 3.34% during the first nine months of 2008 to 2.03% during the current nine month period. During 2007 and into 2008 we offered a promotional time deposit product. Early in 2008 we stopped offering this product and allowed these higher rate promotional time deposits to mature, while increasing the level of short-term borrowings which offered favorable interest rates in comparison to rates we would have had to pay to attract additional time deposits.

The decline in the average balance of time deposits primarily relates to the maturity of these promotional time deposits while the decline in rate paid on time deposits includes the effect of the maturity of the promotional time balances as well as a decline in market interest rates.

Interest expense on NOW accounts increased by \$32 thousand related to an increase in the average balance of these accounts of \$19.6 million, partially offset by a decline in the average rate paid from 0.81% during the 2008 period to 0.69% in the current nine month period. See FINANCIAL CONDITION Deposits for additional information related to the increase in NOW accounts. Interest expense on money market accounts increased by \$43 thousand related to both an increase in average balance and an increase in the average rate paid. The rate paid on these accounts increased by 5 basis points from 0.79% during the nine months ended September 30, 2008 to 0.84% during the nine months ended September 30, 2009. The increase in rate and average balance is associated with the introduction of a new corporate sweep product which offers a tiered rate structure that rewards customers with a higher rate for maintaining larger balances. Interest on savings accounts declined by \$56 thousand related to a decline in rate paid of 17 basis points. Interest on short-term borrowings decreased by \$118 thousand as a decline in the rate paid on these borrowings of 196 basis points from 2.26% to 0.30% was partially offset by a \$14.7 million increase in average balance. Interest expense

paid on junior subordinated debentures, which fluctuates with changes in the 3-month London Interbank Offered Rate (LIBOR) rate, decreased by \$179 thousand as a result of a decrease in the LIBOR rate.

**Table of Contents**

The following table presents for the nine-month periods indicated the distribution of consolidated average assets, liabilities and shareholders' equity. It also presents the amounts of interest income from interest earning assets and the resultant annualized yields expressed in both dollars and annualized yield percentages, as well as the amounts of interest expense on interest bearing liabilities and the resultant cost expressed in both dollars and annualized rate percentages. Average balances are based on daily averages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned:

|  | For the Nine Months Ended September<br>30, 2009 |                               |                | For the Nine Months Ended September<br>30, 2008 |                               |                |
|--|---|-------------------------------|----------------|---|-------------------------------|----------------|
|  | Average<br>Balance<br>(in<br>thousands)         | Interest<br>(in<br>thousands) | Yield/<br>Rate | Average<br>Balance<br>(in<br>thousands)         | Interest<br>(in<br>thousands) | Yield/<br>Rate |
| <b>Interest-earning assets:</b>          |   |                               |                |   |                               |                |
| Loans (1) (2)                            | \$ 360,412                                      | \$ 15,556                     | 5.77%          | \$ 353,639                                      | \$ 18,169                     | 6.86%          |
| Investment securities (1)                | 57,376  | 1,545                         | 3.60%          | 48,911  | 1,475                         | 4.03%          |
| Federal funds sold                       | 16  |                               | 0.32%          | 153   | 3                             | 2.62%          |
| Total interest-earning<br>assets         | 417,804   | 17,101                        | 5.47%          | 402,703   | 19,647                        | 6.52%          |
| Cash and due from banks                  | 26,467  |                               |                | 11,845  |                               |                |
| Other assets                             | 34,437  |                               |                | 32,745  |                               |                |
| Total assets                             | \$ 478,708                                      |                               |                | \$ 447,293                                      |                               |                |
| <b>Interest-bearing<br/>liabilities:</b> |   |                               |                |   |                               |                |
| NOW deposits                             | \$ 93,584                                       | 481                           | 0.69%          | \$ 73,957                                       | 449                           | 0.81%          |
| Money market deposits                    | 41,030  | 259                           | 0.84%          | 36,300  | 216                           | 0.79%          |
| Savings deposits                         | 50,282  | 69                            | 0.18%          | 48,090  | 125                           | 0.35%          |
| Time deposits                            | 101,364   | 1,541                         | 2.03%          | 114,372   | 2,856                         | 3.34%          |
| Total deposits                           | 286,260   | 2,350                         | 1.10%          | 272,719   | 3,646                         | 1.79%          |
| Short-term borrowings                    | 25,006  | 56                            | 0.30%          | 10,299  | 174                           | 2.26%          |
| Other interest-bearing<br>liabilities    | 215   | 6                             | 3.72%          | 309   | 13                            | 5.62%          |
| Junior subordinated<br>debentures        | 10,310  | 294                           | 3.81%          | 10,310  | 473                           | 6.13%          |
| Total interest-bearing<br>liabilities    | 321,791   | 2,706                         | 1.12%          | 293,637   | 4,306                         | 1.96%          |
| Non-interest bearing<br>deposits         | 106,714   |                               |                | 110,677   |                               |                |
| Other liabilities                        | 5,723   |                               |                | 5,602   |                               |                |
| Shareholders' equity                     | 44,480  |                               |                | 37,377  |                               |                |

|   |            |       |            |       |
|---|------------|-------|------------|-------|
| Total liabilities & equity                  | \$ 478,708 |       | \$ 447,293 |       |
| Cost of funding interest-earning assets (3) |            | 0.86% |            | 1.43% |
| Net interest income and margin (4)          | \$ 14,395  | 4.61% | \$ 15,341  | 5.09% |

- (1) Not computed on a tax-equivalent basis.
- (2) Net loan costs included in loan interest income for the nine-month periods ended September 30, 2009 and 2008 were \$133 thousand and \$208 thousand, respectively.
- (3) Total annualized interest expense divided by the average balance of total earning assets.
- (4) Annualized net interest income divided by the average balance of total earning assets.

**Table of Contents**

The following table sets forth changes in interest income and interest expense for the nine-month periods indicated and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates:

**2009 over 2008 change in net interest income  
for the nine months ended September 30  
(in thousands)**

|                                      | Volume (1) | Rate (2)   | Mix (3) | Total      |
|--------------------------------------|------------|------------|---------|------------|
| <b>Interest-earning assets:</b>      |            |            |         |            |
| Loans                                | \$ 348     | \$ (2,889) | \$ (72) | \$ (2,613) |
| Investment securities                | 255        | (157)      | (28)    | 70         |
| Federal funds sold                   | (3)        | (3)        | 3       | (3)        |
| Total interest income                | 600        | (3,049)    | (97)    | (2,546)    |
| <b>Interest-bearing liabilities:</b> |            |            |         |            |
| NOW deposits                         | 119        | (69)       | (18)    | 32         |
| Money market deposits                | 28         | 13         | 2       | 43         |
| Savings deposits                     | 6          | (59)       | (3)     | (56)       |
| Time deposits                        | (324)      | (1,115)    | 124     | (1,315)    |
| Short-term borrowings                | 248        | (151)      | (215)   | (118)      |
| Other interest-bearing liabilities   | (4)        | (4)        | 1       | (7)        |
| Junior subordinated debentures       |            | (179)      |         | (179)      |
| Total interest expense               | 73         | (1,564)    | (109)   | (1,600)    |
| Net interest income                  | \$ 527     | \$ (1,485) | \$ 12   | \$ (946)   |

(1) The volume change in net interest income represents the change in average balance divided by the previous year's rate.

(2) The rate change in net interest income represents the change in rate multiplied by the previous year's average



balance.

- (3) The mix change in net interest income represents the change in average balance multiplied by the change in rate.

**Provision for loan losses.** The allowance for loan losses is maintained at a level that management believes will be adequate to absorb inherent losses on existing loans based on an evaluation of the collectibility of the loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay their loan. The allowance for loan losses is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. (See FINANCIAL CONDITION Analysis of allowance for loan losses )

The Company recorded \$11.3 million in provision for loan losses for the nine months ended September 30, 2009, an increase of \$9.6 million from the \$1.7 million recorded during the nine months ended September 30, 2008. The Company has experienced a higher level of net loan charge-offs and nonperforming loans related to the significant economic slow down affecting California and Nevada. In response, the Company has increased its level of allowance for loan losses to total loans from 1.37% at September 30, 2008 to 1.97% at December 31, 2008 and to 2.43% at September 30, 2009. The allowance for loan losses has increased from \$4.9 million at September 30, 2008 to \$7.2 million at December 31, 2008 and \$8.4 million at September 30, 2009. Net charge-offs as an annualized percentage of average loans increased from 0.38% during the first nine months of 2008 to 3.77% during the nine months ended September 30, 2009. Net charge-offs totaled \$10.2 million during the first nine months of 2009 compared to \$1.0 million during the nine months ended September 30, 2008. Nonperforming loans increased from \$3.8 million at September 30, 2008 to \$17.2 million at September 30, 2009.

**Table of Contents**

**Non-interest income.** During the nine months ended September 30, 2009 non-interest income increased by \$259 thousand to \$4.0 million, from \$3.8 million during the nine months ended September 30, 2008. However, during the 2008 period non-interest income was reduced by an other-than-temporary impairment charge for an investment in a debt security issued by Lehman Brothers Holdings, Inc. totaling \$415 thousand. Excluding this item non-interest income would have decreased by \$156 thousand.

Reductions in non-interest income include a \$114 thousand decline in service charge income related to a decline in overdraft income, an \$83 thousand decline in dividends received from the Federal Home Loan Bank of San Francisco (FHLB), a \$69 thousand decline in official check fees and a decline of \$38 thousand in investment services income. The FHLB did not pay a dividend during the first two quarters of 2009, but paid a dividend of \$4 thousand during the third quarter of 2009. This compares to dividends totaling \$87 thousand paid during the first nine months of 2008. Official checks fees represent fees paid by a third party processor for the processing of our cashier and expense checks. These fees are indexed to the federal funds rate and the decrease in income from this item is primarily related to the decline in the federal funds rate. Additionally, during mid 2008 the processor changed the fee structure further reducing fees that we earn under this relationship. We attribute the decline in investment services income primarily to economic factors.

Partially offsetting these reductions in non-interest income was a \$104 thousand increase in gains on the sale of loans. Gains on sale of loans relate to government guaranteed loans sold into the secondary market. We have been expanding our government guaranteed loan operations resulting in an increase in loan production from this source.

The following table describes the components of non-interest income for the nine-month periods ending September 30, 2009 and 2008, dollars in thousands:

|  | <b>For the Nine Months<br/>Ended September 30,</b> |                 | <b>Dollar<br/>Change</b> | <b>Percentage<br/>Change</b> |
|--|--|-----------------|--------------------------|------------------------------|
|  | <b>2009</b>  | <b>2008</b>     |                          |                              |
| Service charges on deposit accounts          | \$ 2,823   | \$ 2,937        | \$ (114)                 | -3.9%                        |
| Earnings on life insurance policies          | 323  | 314             | 9                        | 2.9%                         |
| Gain on sale of loans                        | 215  | 111             | 104                      | 93.7%                        |
| Merchant processing income                   | 211  | 222             | (11)                     | -5.0%                        |
| Customer service fees                        | 92   | 87              | 5                        | 5.7%                         |
| Investment services income                   | 61   | 99              | (38)                     | -38.4%                       |
| Safe deposit box and night depository income | 49   | 50              | (1)                      | -2.0%                        |
| Official check fees                          | 14   | 83              | (69)                     | -83.1%                       |
| Federal Home Loan Bank dividends             | 4  | 87              | (83)                     | -95.4%                       |
| Impairment loss on investment security       |  | (415)           | 415                      | 100.0%                       |
| Other  | 249  | 207             | 42                       | 20.3%                        |
| <b>Total non-interest income</b>             | <b>\$ 4,041</b>                                    | <b>\$ 3,782</b> | <b>\$ 259</b>            | <b>6.8%</b>                  |

**Non-interest expenses.** During the nine months ended September 30, 2009, total non-interest expense increased by \$2.1 million, or 14%, to \$17.0 million, up from \$14.9 million for the comparable period in 2008. This increase in non-interest expense was primarily the result of an increase in the provision for OREO losses of \$848 thousand and an increase in FDIC insurance assessments of \$722 thousand. Other significant increases included \$152 thousand in salaries and employee benefits, \$140 thousand in professional fees, \$188 thousand in loan and collection costs and OREO costs, \$183 thousand in losses on the sale of OREO and vehicles and \$265 thousand in other expense. These items were partially offset by reductions in other costs the three largest of which were advertising and shareholder relations, business development and insurance expense.



**Table of Contents**

A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The provision for OREO losses for the nine months ended September 30, 2009 totaled \$887 thousand which represents declines in the value of several properties. During 2009 the FDIC increased regular assessments and implemented a special assessment resulting in a significant increase in FDIC assessments. Additionally, during the first quarter of 2008 the Company was able to use its remaining credit balance with the FDIC to offset insurance premium billings; however, by the end of the first quarter of 2008 the credit balance had been fully utilized. Salaries and other employee benefits increased by \$152 thousand primarily related to additional staffing in our government guaranteed lending operations which were somewhat offset by reductions in staffing in other areas including our Reno loan production office and our Redding branch. The increase in professional fees relates to consulting costs associated with our computer network and telephone system and loan related legal expense. Consistent with the increase in nonperforming loans and assets during the period (See FINANCIAL CONDITION Nonperforming Loans ) loan and collection and OREO expenses which include costs related to acquiring and maintaining real estate acquired through foreclosure increased by \$188 thousand from \$265 thousand during the first nine months of 2008 to \$453 thousand for the nine months ended September 30, 2009. The losses incurred on the sale of OREO totaled \$158 thousand and relate to the sale of seven properties. Proceeds received on sale of these properties totaled \$1.6 million. The increase in other expense, which totaled \$265 thousand, is primarily related to nonrecurring expense items, the largest of which totaled \$140 thousand.

We implemented cost control initiatives which, among other things, have resulted in savings in advertising, shareholder relation costs and business development costs. These cost savings totaled \$183 thousand during the first nine months of 2009 when compared to the 2008 period. We reduced our shareholder expense by eliminating the glossy section of our annual report. Business development costs declined as we reduced certain employee travel and relationship-building initiatives which generating an annual savings of approximately \$75 thousand.

During the first quarter of 2009 our Chief Information and Technology officer retired from the Company. Because his retirement took place prior to the age of sixty-five he forfeited his benefits under his company provided split dollar life insurance plan. To reflect this forfeiture we recorded a one-time reduction in insurance expense totaling \$83 thousand. The following table describes the components of non-interest expense for the nine-month periods ending September 30, 2009 and 2008, dollars in thousands:

|  | For the Nine Months      |          | Dollar | Percentage |
|--|--------------------------|----------|--------|------------|
|  | Ended September 30, 2009 | 2008     |        |            |
| Salaries and employee benefits           | \$ 8,417                 | \$ 8,265 | \$ 152 | 1.8%       |
| Occupancy and equipment                  | 2,836                    | 2,872    | (36)   | -1.3%      |
| FDIC insurance and assessments           | 905                      | 183      | 722    | 394.5%     |
| Provision for OREO losses                | 887                      | 39       | 848    | 2,174.4%   |
| Professional fees                        | 598                      | 458      | 140    | 30.6%      |
| Outside service fees                     | 588                      | 530      | 58     | 10.9%      |
| Loan collection and OREO expenses        | 453                      | 265      | 188    | 70.9%      |
| Telephone and data communication         | 301                      | 303      | (2)    | -0.7%      |
| Advertising and shareholder relations    | 249                      | 334      | (85)   | -25.4%     |
| Business development                     | 241                      | 339      | (98)   | -28.9%     |
| Director compensation                    | 221                      | 264      | (43)   | -16.3%     |
| Armored car and courier                  | 210                      | 218      | (8)    | -3.7%      |
| Loss on sale of real estate and vehicles | 200                      | 17       | 183    | 1,076.5%   |
| Postage                                  | 154                      | 180      | (26)   | -14.4%     |
| Stationery and supplies                  | 139                      | 172      | (33)   | -19.2%     |
| Deposit premium amortization             | 130                      | 172      | (42)   | -24.4%     |
| Insurance                                | 85                       | 176      | (91)   | -51.7%     |
| Other                                    | 427                      | 162      | 265    | 163.6%     |

Edgar Filing: PLUMAS BANCORP - Form 10-Q

|                            |    |        |    |        |    |       |       |
|----------------------------|----|--------|----|--------|----|-------|-------|
| Total non-interest expense | \$ | 17,041 | \$ | 14,949 | \$ | 2,092 | 14.0% |
|----------------------------|----|--------|----|--------|----|-------|-------|

**Table of Contents**

**Provision for income taxes.** The Company recorded an income tax benefit of \$4.3 million, or 43.0% of pre-tax loss for the nine months ended September 30, 2009. This compares to income tax expense of \$822 thousand or 33.1% of pre-tax income during the first nine months of 2008. The percentage for 2009 exceeds the statutory rate as tax exempt income such as earnings on Bank owned life insurance and municipal loan and investment income increase the loss subject to tax benefit. In determining that realization of the deferred tax assets is more likely than not and no valuation allowance is needed at September 30, 2009, we considered a number of factors including reversing taxable temporary differences in future periods and our ability to generate future taxable income.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009**

**Net Income.** The Company recorded a net loss of \$1.14 million or (\$0.27) per share for the three months ended September 30, 2009, down from net income of \$390 thousand or \$0.08 per share for the three months ended September 30, 2008. This decrease in earnings resulted from a \$493 thousand decline in net interest income, a \$1.85 million increase in the provision for loan losses and a \$758 thousand increase in non-interest expense. These items were partially offset by a \$519 thousand increase in non-interest income and a \$1.05 million decrease in income tax.

Net income (loss) allocable to common shareholders declined from net income of \$390 thousand during the quarter ended September 30, 2008 to a net loss of \$1.31 million during the current three month period. Included in the 2009 loss was the net loss described above of \$1.14 million and an additional \$171 thousand decrease which represents dividends paid and accrued and discount amortized on preferred stock.

**Net interest income before provision for loan losses.** Net interest income, on a nontax-equivalent basis, was \$4.7 million for the three months ended September 30, 2009, a decrease of \$493 thousand, or 9%, from \$5.2 million for the same period in 2008. The decline in net interest income was primarily related to a decrease in the yields on loans. In addition the company experienced a decrease in yields on investments and an increase in the average balance of NOW deposit accounts. The effect of these items on net interest income were partially offset by an increase in the average balance of investment securities, a decline in the rates paid on time deposits, short-term borrowings and junior subordinated debentures. Net interest margin for the three months ended September 30, 2009 decreased 73 basis points, or 14%, to 4.43%, down from 5.16% for the same period in 2008.

Interest income decreased \$778 thousand or 12%, to \$5.7 million for the three months ended September 30, 2009 primarily as a result of a decline in loan yield. Interest and fees on loans decreased \$888 thousand to \$5.1 million for the three months ended September 30, 2009 as compared to \$6.0 million during the third quarter of 2008. The average rate earned on the Company's loan balances decreased 97 basis points to 5.67% during the three months ended September 30, 2009 compared to 6.64% during the third quarter of 2008. The decline in loan yield reflects a large decline in market interest rates as illustrated by a decline in the prime interest rate from 5.00% at July 1, 2008 to 3.25% at September 30, 2009. Additionally, our nonperforming loans have significantly increased during the comparison periods. While nonperforming loans are included in the average balance of loans, the vast majority of these loans are not accruing interest. The result is a decrease in loan yield and a decrease in net interest margin. The average balance in loans outstanding decreased slightly from \$358 million during the 2008 quarter to \$356 million during the current quarter.

A 71 basis points decline in yield on investment securities was offset by an increase of \$23.1 million in the average balance outstanding resulting in a net increase of \$111 thousand in interest earned on investment securities.

Interest expense decreased by \$285 thousand, or 24%, to \$917 thousand for the three months ended September 30, 2009, down from \$1.2 million for the same period in 2008. The largest component of this decline was a \$234 thousand decline in interest on time deposits. The average rate paid on time deposits declined from 2.75% during the 2008 quarter to 1.87% during the current quarter. Average time deposits declined slightly to \$104.8 million from \$105.4 million during the third quarter of 2008. The decline in rate paid on time deposits primarily relates to declines in market rates during the period. Interest expense on NOW accounts increased by \$86 thousand related to an increase in the average balance of these accounts of \$37.8 million and an increase in the rate paid from 0.69% during the 2008 quarter to 0.76% in the current quarter. See FINANCIAL CONDITION Deposits for addition information related to the increase in NOW accounts.



**Table of Contents**

Interest expense on short-term borrowings declined by \$58 thousand as an increase in the average balance of these borrowings totaling \$4.3 million was offset by a decline in the rate paid of 160 basis points from 2.02% during the quarter ended September 30, 2008 to 0.42% during the current quarter. Interest expense on junior subordinated debentures declined by \$60 thousand related to a decline in the rate paid from 5.56% during the third quarter of 2008 to 3.23% during the three months ended September 30, 2009.

The following table presents for the three-month periods indicated the distribution of consolidated average assets, liabilities and shareholders' equity. It also presents the amounts of interest income from interest earning assets and the resultant annualized yields expressed in both dollars and annualized yield percentages, as well as, the amounts of interest expense on interest bearing liabilities and the resultant cost expressed in both dollars and annualized rate percentages. Average balances are based on daily averages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned:

|                                      | For the Three Months Ended<br>September 30, 2009 |                               |                | For the Three Months Ended<br>September 30, 2008 |                               |                |
|--------------------------------------|--|-------------------------------|----------------|--|-------------------------------|----------------|
|                                      | Average<br>Balance<br>(in<br>thousands)          | Interest<br>(in<br>thousands) | Yield/<br>Rate | Average<br>Balance<br>(in<br>thousands)          | Interest<br>(in<br>thousands) | Yield/<br>Rate |
| <b>Interest-earning assets:</b>      |  |                               |                |  |                               |                |
| Loans (1) (2)                        | \$ 356,210                                       | \$ 5,090                      | 5.67%          | \$ 357,970                                       | \$ 5,978                      | 6.64%          |
| Investment securities (1)            | 68,329   | 563                           | 3.27%          | 45,216   | 452                           | 3.98%          |
| Federal funds sold                   |  |                               | %              | 132  | 1                             | 3.01%          |
| Total interest-earning assets        | 424,539  | 5,653                         | 5.28%          | 403,318  | 6,431                         | 6.34%          |
| Cash and due from banks              | 35,511   |                               |                | 11,643   |                               |                |
| Other assets                         | 37,091   |                               |                | 34,529   |                               |                |
| Total assets                         | \$ 497,141                                       |                               |                | \$ 449,490                                       |                               |                |
| <b>Interest-bearing liabilities:</b> |  |                               |                |  |                               |                |
| NOW deposits                         | \$ 110,617                                       | 212                           | 0.76%          | \$ 72,846  | 126                           | 0.69%          |
| Money market deposits                | 40,660   | 82                            | 0.80%          | 36,821   | 80                            | 0.86%          |
| Savings deposits                     | 50,638   | 22                            | 0.17%          | 49,446   | 41                            | 0.33%          |
| Time deposits                        | 104,822  | 494                           | 1.87%          | 105,391  | 728                           | 2.75%          |
| Total deposits                       | 306,737  | 810                           | 1.05%          | 264,504  | 975                           | 1.47%          |
| Short-term borrowings                | 19,886   | 21                            | 0.42%          | 15,573   | 79                            | 2.02%          |
| Other interest-bearing liabilities   | 209  | 2                             | 3.79%          | 310  | 4                             | 5.13%          |
| Junior subordinated debentures       | 10,310   | 84                            | 3.23%          | 10,310   | 144                           | 5.56%          |
| Total interest-bearing liabilities   | 337,142  | 917                           | 1.08%          | 290,697  | 1,202                         | 1.64%          |



|   |            |       |            |       |
|---|------------|-------|------------|-------|
| Non-interest bearing deposits               | 110,459    |       | 115,691    |       |
| Other liabilities                           | 6,308      |       | 5,662      |       |
| Shareholders' equity                        | 43,232     |       | 37,440     |       |
| Total liabilities & equity                  | \$ 497,141 |       | \$ 449,490 |       |
| Cost of funding interest-earning assets (3) |            | 0.85% |            | 1.18% |
| Net interest income and margin (4)          | \$ 4,736   | 4.43% | \$ 5,229   | 5.16% |

(1) Not computed on a tax-equivalent basis.

(2) Net loan costs included in loan interest income for the three-month periods ended September 30, 2009 and 2008 were \$47 thousand and \$58 thousand, respectively.

(3) Total interest expense divided by the average balance of total earning assets.

(4) Net interest income divided by the average balance of total earning assets.

**Table of Contents**

The following table sets forth changes in interest income and interest expense for the three-month periods indicated and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates:

|                                      | <b>2009 over 2008 change in net interest income<br/>for the three months ended September 30<br/>(in thousands)</b> |                 |                |              |
|--------------------------------------|--|-----------------|----------------|--------------|
|                                      | <b>Volume (1)</b>  | <b>Rate (2)</b> | <b>Mix (3)</b> | <b>Total</b> |
| <b>Interest-earning assets:</b>      |  |                 |                |              |
| Loans                                | \$ (29)  | \$ (879)        | \$ 20          | \$ (888)     |
| Investment securities                | 232  | (81)            | (40)           | 111          |
| Federal funds sold                   | (1)  |                 |                | (1)          |
| Total interest income                | 202  | (960)           | (20)           | (778)        |
| <b>Interest-bearing liabilities:</b> |  |                 |                |              |
| NOW deposits                         | 66   | 13              | 7              | 86           |
| Money market deposits                | 8  | (6)             |                | 2            |
| Savings deposits                     | 1  | (20)            |                | (19)         |
| Time deposits                        | (4)  | (233)           | 3              | (234)        |
| Short-term borrowings                | 22   | (63)            | (17)           | (58)         |
| Other interest-bearing liabilities   | (1)  | (1)             |                | (2)          |
| Junior subordinated debentures       |  | (60)            |                | (60)         |
| Total interest expense               | 92   | (370)           | (7)            | (285)        |
| Net interest income                  | \$ 110   | \$ (590)        | \$ (13)        | \$ (493)     |

(1) The volume change in net interest income represents the change in average balance divided by the previous year's rate.

(2) The rate change in net interest income represents the change in rate divided by the previous year's average balance.

- (3) The mix change in net interest income represents the change in average balance multiplied by the change in rate.

**Provision for loan losses.** In response to an increase in the level of net loan charge-offs and our evaluation of the adequacy of the allowance for loan losses in the current economic environment, particularly related to the decline in real estate values, we increased our provision for loan losses. The Company recorded \$2.55 million in provision for loan losses for the three months ended September 30, 2009 compared to the \$700 thousand for the three months ended September 30, 2008. Management assesses its loan quality monthly to maintain an adequate allowance for loan losses. Based on information currently available, management believes that the allowance for loan losses is adequate to absorb the probable losses in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period. See FINANCIAL CONDITION Analysis of allowance for loan losses for additional information.

**Non-interest income.** During the three months ended September 30, 2009 non-interest income increased by \$519 thousand to \$1.5 million, from \$1.0 million during the three months ended September 30, 2008. However, during the 2008 period non-interest income was reduced by an other-than-temporary impairment charge for an investment in a debt security issued by Lehman Brothers Holdings, Inc. totaling \$415 thousand. Excluding the Lehman charge non-interest income would have increased by \$104 thousand. The largest component of the \$104 thousand increase was an increase in gains on the sale of SBA loans of \$173 thousand. SBA loans are sold from time to time based on market conditions, liquidity needs, SBA loan production and other factors. Service charge income decreased by \$45 thousand primarily related to a decline in overdraft income. Other declines in non-interest income included \$7 thousand in investment services income, \$16 thousand in official check fees and \$26 thousand in FHLB dividends.

**Table of Contents**

The following table describes the components of non-interest income for the three-month periods ending September 30, 2009 and 2008, dollars in thousands:

|  | For the Three Months<br>Ended September 30, |          | Dollar<br>Change | Percentage<br>Change |
|--|---|----------|------------------|----------------------|
|  | 2009  | 2008     |                  |                      |
| Service charges on deposit accounts          | \$ 970                                      | \$ 1,015 | \$ (45)          | -4.4%                |
| Gain on sale of loans                        | 205   | 32       | 173              | 540.6%               |
| Earnings on life insurance policies          | 108   | 107      | 1                | 0.9%                 |
| Merchant processing income                   | 99  | 97       | 2                | 2.1%                 |
| Customer service fees                        | 33  | 30       | 3                | 10.0%                |
| Safe deposit box and night depository income | 15  | 16       | (1)              | -6.3%                |
| Investment services income                   | 14  | 21       | (7)              | -33.3%               |
| Official check fees                          | 4   | 20       | (16)             | -80.0%               |
| Federal Home Loan Bank dividends             | 4   | 30       | (26)             | -86.7%               |
| Impairment loss on investment security       |   | (415)    | 415              | 100%                 |
| Other  | 83  | 63       | 20               | 31.7%                |
| Total non-interest income                    | \$ 1,535                                    | \$ 1,016 | \$ 519           | 51.1%                |

**Non-interest expenses.** During the three months ended September 30, 2009, total non-interest expenses increased \$758 thousand, or 15%, to \$5.7 million, up from \$5.0 million for the comparable period in 2008. The increase in non-interest expense was primarily the result of increases of \$531 thousand in the provision for OREO losses, \$168 thousand in FDIC insurance assessments and \$66 thousand in loan collection and OREO expenses.

A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value, the provision for OREO losses for the three months ended September 30, 2009 totaled \$531 thousand which represents declines in the value of several properties. At September 30, 2009 OREO consisted of thirty properties with a total fair value, which includes a \$1.2 million valuation allowance, of \$15.5 million. At September 30, 2008 OREO consisted of eleven properties with a fair value of \$2.4 million. The increase in FDIC insurance includes both an increase in the rate charged Plumas Bank and an increase in deposits. Consistent with the increase in nonperforming loans and assets during the period (See FINANCIAL CONDITION Nonperforming Loans ) loan collection and OREO expenses which include costs related to acquiring and maintaining real estate acquired through foreclosure increased by \$66 thousand from \$100 thousand during the third quarter of 2008 to \$166 thousand for the three months ended September 30, 2009.

The largest positive variances in non-interest expense were a \$35 thousand decline in occupancy and equipment expense, a \$31 thousand decline in business development costs and a \$31 thousand decline in advertising and shareholder relations expense. The decline in occupancy and equipment is related to a decline in equipment expense as our occupancy expense increased by \$17 thousand during the comparison periods as a result of addition of our new data processing facility.

**Table of Contents**

The following table describes the components of non-interest expense for the three-month periods ending September 30, 2009 and 2008, dollars in thousands:

|  | For the Three Months<br>Ended September 30, |          | Dollar<br>Change | Percentage<br>Change |
|--|---|----------|------------------|----------------------|
|  | 2009  | 2008     |                  |                      |
| Salaries and employee benefits           | \$ 2,827                                    | \$ 2,799 | \$ 28            | 1.0%                 |
| Occupancy and equipment                  | 903   | 938      | (35)             | -3.7%                |
| Provision for OREO losses                | 531   | 0        | 531              | 100.0%               |
| FDIC insurance and assessments           | 236   | 68       | 168              | 247.1%               |
| Outside service fees                     | 192   | 182      | 10               | 5.5%                 |
| Professional fees                        | 174   | 151      | 23               | 15.2%                |
| Loan collection and OREO expenses        | 166   | 100      | 66               | 66.0%                |
| Telephone and data communication         | 100   | 105      | (5)              | -4.8%                |
| Advertising and shareholder relations    | 76  | 107      | (31)             | -29.0%               |
| Director compensation                    | 73  | 89       | (16)             | -18.0%               |
| Armored car and courier                  | 73  | 76       | (3)              | -3.9%                |
| Business development                     | 71  | 102      | (31)             | -30.4%               |
| Loss on sale of real estate and vehicles | 59  | 6        | 53               | 883.3%               |
| Insurance                                | 56  | 60       | (4)              | -6.7%                |
| Postage                                  | 47  | 60       | (13)             | -21.7%               |
| Deposit premium amortization             | 43  | 43       | 0                | %                    |
| Stationery and supplies                  | 38  | 56       | (18)             | -32.1%               |
| Other                                    | 78  | 43       | 35               | 81.4%                |
| Total non-interest expense               | \$ 5,743                                    | \$ 4,985 | \$ 758           | 15.2%                |

**Provision for income taxes.** The Company recorded an income tax benefit of \$882 thousand, or 43.6% of pre-tax loss for the three months ended September 30, 2009. This compares to income tax expense of \$170 thousand or 30.4% of pre-tax income during the third quarter of 2008. The percentage for 2009 exceeds the statutory rate as tax exempt income such as earnings on Bank owned life insurance and municipal loan and investment income increase the loss subject to tax benefit. In determining that realization of the deferred tax assets is more likely than not and no valuation allowance is needed at September 30, 2009, we considered a number of factors including reversing taxable temporary differences in future periods and our ability to generate future taxable income.

**FINANCIAL CONDITION**

**Fair value.** The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

See Note 10 of the *Notes to Condensed Consolidated Financial Statements* for additional information about the financial instruments carried at fair value.

**Loan portfolio composition.** Net loans decreased by \$23 million from \$359 million at December 31, 2008 to \$336 million at September 30, 2009. The decrease primarily relates to two factors, net loan charge-offs for the nine months of \$10.2 million and \$14 million in loans transferred to OREO. The Company continues to manage the mix of its loan portfolio consistent with its identity as a community bank serving the financing needs of all sectors of the area

it serves. Although the Company offers a broad array of financing options, it continues to concentrate its focus on small to medium sized businesses. The Company offers both fixed and floating rate loans and obtains collateral in the form of real property, business assets and deposit accounts, but looks to business and personal cash flows as its primary source of repayment.

**Table of Contents**

The Company's largest lending categories are real estate mortgage loans, consumer and real estate construction loans. These categories accounted for approximately 47%, 16% and 14%, respectively of the Company's total loan portfolio at September 30, 2009, compared to 42%, 17% and 20%, respectively of the Company's total loan portfolio at December 31, 2008. The decline in real estate construction loans primarily relate to charge-offs and foreclosures in this category during the nine month period. In addition, the Company's real estate related loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate comprised 77% and 75% of the total loan portfolio at September 30, 2009 and December 31, 2008, respectively. The business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, and Sierra and in Washoe County in Northern Nevada. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company's operations in these areas of Northeastern California and Northwestern Nevada exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions.

The rates of interest charged on variable rate loans are set at specific increments in relation to the Company's lending rate or other indexes such as the published prime interest rate or U.S. Treasury rates and vary with changes in these indexes. At September 30, 2009 and December 31, 2008, approximately 68% and 67%, respectively, of the Company's loan portfolio was comprised of variable rate loans. While real estate mortgage, commercial and consumer lending remain the foundation of the Company's historical loan mix, some changes in the mix have occurred due to the changing economic environment and the resulting change in demand for certain loan types. In addition, the Company remains committed to the agricultural industry in Northeastern California and will continue to pursue high quality agricultural loans. Agricultural loans include both commercial and commercial real estate loans. The Company's agricultural loan balances totaled \$41 million and \$36 million at September 30, 2009 and December 31, 2008, respectively.

**Nonperforming loans.** Nonperforming loans at September 30, 2009 were \$17.2 million, a decrease of \$9.5 million from the \$26.7 million balance at December 31, 2008. Nonperforming loans as a percentage of total loans decreased to 5.00% at September 30, 2009 down from 7.31% at December 31, 2008. Most of the decline in nonperforming loans resulted from the foreclosure of the underlying collateral on the loans resulting in an increase in OREO of \$11.4 million during 2009. In total \$14 million in loans were transferred to OREO during the nine months ended September 30, 2009.

The majority of the nonperforming loan balances at September 30, 2009 are related to three relationships representing six loans. These six loans have a total principal balance at September 30, 2009 of \$9.5 million. Included in the allowance for loan losses are specific reserves of \$1.8 million related to these loans.

At September 30, 2009 and December 31, 2008, the Company's recorded investment in impaired loans totaled \$16.7 million and \$26.4 million, respectively. The specific allowance for loan losses related to impaired loans was \$2.5 million and \$3.1 million at September 30, 2009 and December 31, 2008, respectively.

The Company has implemented a Management Asset Resolution Committee (MARC) to develop an action plan to significantly reduce nonperforming loans. It consists of members of executive and credit administration management, and the activities are governed by a formal written charter. The MARC meets semi-monthly and reports to the Board's Loan Committee.

More specifically, a formal plan to effect repayment and/or disposition of every significant nonperforming loan relationship is developed and documented for review and on-going oversight by the MARC. Some of the strategies used include but are not limited to: 1) obtaining additional collateral, 2) obtaining additional investor cash infusion, 3) sale of the promissory note to an outside party, 4) proceeding with foreclosure on the underlying collateral, 5) legal action against borrower/guarantors to encourage settlement of debt and/or collect any deficiency balance owed. Each step includes a benchmark timeline to track progress.

**Table of Contents**

MARC also provides guidance for the maintenance and timely disposition of OREO properties; including developing financing and marketing programs to incent individuals to purchase OREO.

**Nonperforming assets.** Nonperforming assets (which are comprised of nonperforming loans plus foreclosed real estate and repossessed vehicle holdings) at September 30, 2009 were \$32.8 million, an increase of \$1.8 million over the \$31.0 million balance at December 31, 2008. Foreclosed real estate holdings represented nineteen properties totaling \$4.1 million at December 31, 2008 and thirty properties totaling \$15.5 million at September 30, 2009. Of these thirty properties, four properties represent 74% of the balance or \$11.4 million of the \$15.5 million. Nonperforming assets as a percentage of total assets decreased to 6.52% at September 30, 2009 down slightly from 6.78% at December 31, 2008.

**Analysis of allowance for loan losses.** The allowance for loan losses totaled \$4.90 million, \$7.22 million and \$8.35 million at September 30, 2008, December 31, 2008 and September 30, 2009, respectively. Annualized net charge-offs during the nine months ended September 30, 2009 totaled \$10.2 million, or 3.77% of average loans, compared to \$1.0 million, or 0.38% of average loans, for the comparable period in 2008. Net charge-offs during the first nine months of 2009 were comprised of \$10.4 million of charge-offs, most of which relates to construction and land development loans, offset by \$206 thousand in recoveries, compared to \$1.1 million of charge-offs offset by \$129 thousand in recoveries for the same period in 2008. The increase in charge-offs primarily relates to a decline in real estate values during the comparison periods. The allowance for loan losses was 2.43% of total loans as of September 30, 2009 up from 1.97% as of December 31, 2008 and 1.37% at September 30, 2008. The increase in the allowance for loan losses from December 31, 2008 is attributable to increases in general reserves of \$1.7 million from \$4.1 million, or 57% of the allowance at December 31, 2008 to \$5.8 million, or 70% of the allowance at September 30, 2009. Specific reserves related to impaired loans decreased by \$0.6 million to \$2.5 million at September 30, 2009.

It is the policy of management to make additions to the allowance for loan losses so that it remains adequate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance at September 30, 2009 is adequate. However, the determination of the amount of the allowance is judgmental and subject to economic conditions which cannot be predicted with certainty. Accordingly, the Company cannot predict whether charge-offs of loans in excess of the allowance may occur in future periods.

The following table provides certain information for the nine-month period indicated with respect to the Company's allowance for loan losses as well as charge-off and recovery activity.

|                             | <b>For the Nine Months<br/>Ended September 30,<br/>(in thousands)</b> |             |
|-----------------------------|---|-------------|
|                             | <b>2009</b>   | <b>2008</b> |
| Balance at January 1,       | \$ 7,224  | \$ 4,211    |
| Charge-offs:                |   |             |
| Commercial and agricultural | (472)   | (182)       |
| Real estate mortgage        | (938)   | (68)        |
| Real estate construction    | (8,519)   | (423)       |
| Consumer                    | (451)   | (461)       |
| Total charge-offs           | (10,380)  | (1,134)     |
| Recoveries:                 |   |             |
| Commercial and agricultural | 14  | 9           |
| Real estate mortgage        | 8   |             |
| Real estate construction    |   |             |
| Consumer                    | 184   | 120         |



|  |          |          |
|--|----------|----------|
| Total recoveries   | 206      | 129      |
| Net charge-offs  | (10,174) | (1,005)  |
| Provision for loan losses  | 11,300   | 1,690    |
| Balance at September 30,   | \$ 8,350 | \$ 4,896 |
| Net charge-offs during the nine-month period to average loans (annualized) | 3.77%    | 0.38%    |
| Allowance for loan losses to total loans                                   | 2.43%    | 1.37%    |

**Table of Contents**

**Investment securities.** Investment securities increased \$37.4 million to \$75.8 million at September 30, 2009, up from \$38.4 million at December 31, 2008. The investment portfolio balances in U.S. Treasuries, U.S. Government agencies, corporate debt securities and municipal obligations comprised 2%, 82%, less than 1% and 16%, respectively, of the Company's investment portfolio at September 30, 2009 compared to 4%, 59%, 4%, and 33% at December 31, 2008. The Company increased its level of agency securities primarily to support our growth in public agency deposits which require the pledging of investment securities for balances in excess of those covered by FDIC insurance. In addition, these investments provide a favorable spread over short-term borrowings. Funding for the increase in securities of U.S. government agencies was provided by an increase in our deposits and proceeds from the sale of Series A Preferred Stock.

**Premises and equipment.** As a result of depreciation expense during the period partially offset by capital expenditures of \$201 thousand, premises and equipment decreased by \$926 thousand from \$15.76 million at December 31, 2008 to \$14.84 million at September 30, 2009.

**Deposits.** Total deposits were \$423.9 million as of September 30, 2009, an increase of \$52.4 million, or 14%, from the December 31, 2008 balance of \$371.5 million. A decline of \$2.3 million in non-interest bearing demand deposits was offset by increases of 39.0 million in interest bearing transaction accounts (NOW), \$5.2 million in money market and savings accounts and \$10.5 million in time deposits. The increase in NOW accounts is primarily related to a new interest bearing transaction account designed for local public agencies, which we have successfully marketed to several of the municipalities in our service area. Deposits related to this account increased by \$36.5 million from December 31, 2008 to \$42.5 million at September 30, 2009. This accounts pay rates comparable to those available on a money market fund offered by a typical brokerage firm. We are required to pledge investment securities as collateral against the uninsured portion of these deposits. As described above investment securities increased by \$37.4 million primarily to meet this pledging requirement. The increase in money market and savings accounts includes \$2.0 million related to our on balance sheet money market sweep product which also pays an interest rate competitive with non-bank products such as brokerage money market funds. The increase in time deposits is primary related to a promotional time deposit product we began offering in June, 2009. This product has an 18 month term and a 2% rate. The Company continues to manage the mix of its deposits consistent with its identity as a community bank serving the financial needs of its customers. Non-interest bearing demand deposits declined to 26% of total deposits at September 30, 2009, down from 30% at December 31, 2008. Interest bearing transaction accounts increased to 26% of total deposits at September 30, 2009, up from 20% at December 31, 2008. Money market and savings deposits totaled 22% of total deposits at September 30, 2009, down from 24% at December 31, 2008. Time deposits were 26% of total deposits as of September 30, 2009 and December 31, 2008.

**Short-term borrowing arrangements.** The Company can borrow up to \$90 million from the Federal Home Loan Bank of San Francisco secured by commercial and residential mortgage loans with carrying values totaling \$230 million. However to borrow the maximum amount available from the FHLB the Company would need to purchase an additional \$2.4 million in FHLB stock. Based on its current holdings of FHLB stock the Company's borrowings with the FHLB cannot exceed \$41.1 million. These FHLB advances are normally made for one day periods but can be for longer periods. Short-term borrowings at September 30, 2009 consisted of a \$20 million advance with a six month term. The interest rate on this advance is 0.47% and it matures on January 19, 2010. At December 31, 2008 short-term borrowings consisted of \$34 million in one day FHLB advances. The weighted average rate on these borrowings at September 30, 2009 and December 31, 2008 were 0.47% and 0.05%, respectively.

The average balance in short-term borrowings during the nine months ended September 30, 2009 and 2008 were \$25.0 million and \$10.3 million, respectively. The average rate paid on these borrowings was 0.30% during the nine months ended September 30, 2009 and 2.26% during the first nine months of 2008. The maximum amount of short-term borrowings outstanding at any month-end during the nine months ended September 30, 2009 and 2008 was \$33.8 million and \$27.0 million, respectively.

**Table of Contents**

**CAPITAL RESOURCES**

Shareholders' equity as of September 30, 2009 increased by \$6.2 million to \$41.6 million up from \$35.4 million as of December 31, 2008. This increase is related to the issuance of \$11.9 million in Preferred Stock, Series A as described in the following paragraph, partially offset by our 2009 net loss.

On January 30, 2009, under the Capital Purchase Program, the Company entered into a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury, pursuant to which the Company issued and sold (i) 11,949 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Preferred Shares") and (ii) a ten-year warrant to purchase up to 237,712 shares of the Company's common stock, no par value at an exercise price, subject to anti-dilution adjustments, of \$7.54 per share, for an aggregate purchase price of \$11,949,000 in cash. The Series A Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Purchase Agreement contains provisions that restrict the payment of dividends on Plumas Bancorp common stock and restrict the Company's ability to repurchase Plumas Bancorp common stock.

The Preferred Shares provide the Company with additional Tier 1 capital significantly strengthening our capital ratios as illustrated in the capital ratio table on the next page. The proceeds from the sale of the Preferred Shares have temporarily been invested in U.S. government agency securities. These funds also provide us with additional lending capacity which we can utilize to support our growth objectives and local economic expansion.

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company's stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the "Board"). The Board will periodically, but on no regular schedule, review the appropriateness of a cash dividend payment.

On April 24, 2009, the Company announced that it would be suspending its semi-annual common stock cash dividend for the first half of 2009. During 2008 the Company paid two semi-annual cash dividends to holders of common stock, the first was 16 cents paid on May 16, 2008 and on November 21, 2008 we paid a second cash dividend of 8 cents per share. The Company's Board of Directors will continue to evaluate the payment of a semi-annual common stock cash dividend in future quarters, but does not anticipate paying a cash dividend in 2009.

The Company and the Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (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 met all its capital adequacy requirements and that the Bank met the requirements to be considered well capitalized under the regulatory framework for prompt corrective action as of September 30, 2009.

**Table of Contents**

The following table presents the Company's and the Bank's capital ratios as of September 30, 2009 and December 31, 2008, dollars in thousands:

|  | September 30, 2009 |              | December 31, 2008 |              |
|--|--------------------|--------------|-------------------|--------------|
|  | Amount             | Ratio        | Amount            | Ratio        |
| <b>Tier 1 Leverage Ratio</b>   |                    |              |                   |              |
| <b>Plumas Bancorp and Subsidiary</b>   | \$ 46,392          | 9.4%         | \$ 43,885         | 9.8%         |
| Minimum regulatory requirement   | 19,668             | 4.0%         | 17,907            | 4.0%         |
| <b>Plumas Bank</b>   | <b>44,183</b>      | <b>9.0%</b>  | <b>43,372</b>     | <b>9.7%</b>  |
| Minimum requirement for Well-Capitalized institution under the prompt corrective action plan | 24,641             | 5.0%         | 22,365            | 5.0%         |
| Minimum regulatory requirement   | 19,712             | 4.0%         | 17,892            | 4.0%         |
| <b>Tier 1 Risk-Based Capital Ratio</b>   |                    |              |                   |              |
| <b>Plumas Bancorp and Subsidiary</b>   | <b>46,392</b>      | <b>11.7%</b> | <b>43,885</b>     | <b>11.0%</b> |
| Minimum regulatory requirement   | 15,889             | 4.0%         | 16,021            | 4.0%         |
| <b>Plumas Bank</b>   | <b>44,183</b>      | <b>11.1%</b> | <b>43,372</b>     | <b>10.8%</b> |
| Minimum requirement for Well-Capitalized institution under the prompt corrective action plan | 23,806             | 6.0%         | 23,996            | 6.0%         |
| Minimum regulatory requirement   | 15,870             | 4.0%         | 15,997            | 4.0%         |
| <b>Total Risk-Based Capital Ratio</b>  |                    |              |                   |              |
| <b>Plumas Bancorp and Subsidiary</b>   | <b>51,399</b>      | <b>12.9%</b> | <b>48,919</b>     | <b>12.2%</b> |
| Minimum regulatory requirement   | 31,777             | 8.0%         | 32,042            | 8.0%         |
| <b>Plumas Bank</b>   | <b>49,185</b>      | <b>12.4%</b> | <b>48,399</b>     | <b>12.1%</b> |
| Minimum requirement for Well-Capitalized institution under the prompt corrective action plan | 39,676             | 10.0%        | 39,994            | 10.0%        |
| Minimum regulatory requirement   | 31,741             | 8.0%         | 31,995            | 8.0%         |

**LIQUIDITY**

The Company manages its liquidity to provide the ability to generate funds to support asset growth, meet deposit withdrawals (both anticipated and unanticipated), fund customers' borrowing needs, satisfy maturity of short-term borrowings and maintain reserve requirements. The Company's liquidity needs are managed using assets or liabilities, or both. On the asset side the Company maintains cash and due from banks along with an investment portfolio containing U.S. government securities, agency securities and corporate bonds that are not classified as held-to-maturity. On the liability side, liquidity needs are managed by charging competitive offering rates on deposit products and the use of an established line of credit from the Federal Home Loan Bank.

The Company can borrow up to \$41 million from the FHLB secured by commercial and residential mortgage loans. Additionally, our borrowing line increases as we purchase FHLB stock. The maximum we could borrow from the FHLB at September 30, 2009 was \$90 million; however, this would have required the purchase of \$2.4 million in additional FHLB stock. The Company had outstanding borrowings at September 30, 2009 of \$20 million, consisting of a six month advance which matures on January 19, 2010.

In addition to the FHLB facility, we have a short-term borrowing arrangement with one of our correspondent banks for borrowings up to \$5 million; however during 2009 this facility was modified such that it now requires that borrowings are collateralized. We have chosen not to use this facility at the current time and therefore have not provided collateral to secure this lending arrangement. We formally had a \$10 million short-term borrowing agreement with another correspondent bank which expired on July 31, 2009.

The Company has the ability to secure advances through the Federal Reserve Bank of San Francisco discount window. These advances also must be collateralized.

**Table of Contents**

Customer deposits are the Company's primary source of funds. Total deposits were \$423.9 million as of September 30, 2009, an increase of \$52.4 million, or 14%, from the December 31, 2008 balance of \$371.5 million. Those funds are held in various forms with varying maturities. The Company does not have any brokered deposits. The Company's securities portfolio, Federal funds sold, Federal Home Loan Bank advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as Federal funds sold and investment securities, to serve as a source of funding for future loan growth. Management believes that the Company's available sources of funds, including short-term borrowings, will provide adequate liquidity for its operations in the foreseeable future.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company we are not required to provide the information required by this item.

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer and Chief Financial Officer, based on their evaluation of the Company's disclosure controls and procedures as of the end of the Company's fiscal quarter ended September 30, 2009 (as defined in Exchange Act Rule 13a-15(e)), have concluded that the Company's disclosure controls and procedures are adequate and effective for purposes of Rule 13a-15(e) in timely alerting them to material information relating to the Company required to be included in the Company's filings with the SEC under the Securities Exchange Act of 1934.

There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect internal controls that occurred during the Company's fiscal quarter ended September 30, 2009.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company and/or its subsidiaries are a party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company's management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or results of operations of the Company taken as a whole.

**ITEM 1A. RISK FACTORS**

As a smaller reporting company we are not required to provide the information required by this item.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) The information required by this item was included in the Company's Form 8-K filed on January 30, 2009.

(b) None.

(c) None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The following documents are included or incorporated by reference in this Quarterly Report on Form 10Q:

- 3.1 Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 3.2 Bylaws of Registrant as amended on January 21, 2009, is included as exhibit 3.2 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 3.3 Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 3.4 Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant's 10-Q for September 30, 2005, which is incorporated by this reference herein.
- 4 Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by reference herein.
- 4.1 Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, is included as exhibit 4.1 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.

**Table of Contents**

- 10.1 Executive Salary Continuation Agreement of Andrew J. Ryback dated December 17, 2008, is included as exhibit 10.1 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.2 Split Dollar Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.2 to the Registrant's 8-K filed on October 17, 2005, which is incorporated by this reference herein.
- 10.5 Employment Agreement of Douglas N. Biddle dated February 18, 2009, is included as Exhibit 10.05 to the Registrant's 8-K filed on February 19, 2009, which is incorporated by this reference herein.
- 10.6 Executive Salary Continuation Agreement as amended of Douglas N. Biddle dated June 2, 1994, is included as Exhibit 10.6 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.7 Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as Exhibit 10.7 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.8 Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant's 10-Q for March 31, 2007, which is incorporated by this reference herein.
- 10.11 First Amendment to Executive Salary Continuation Agreement of Robert T. Herr dated September 15, 2004, is included as Exhibit 10.11 to the Registrant's 8-K filed on September 17, 2004, which is incorporated by this reference herein.
- 10.18 Amended and Restated Director Retirement Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.18 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.19 Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.20 Split Dollar Agreements of Robert T. Herr dated September 15, 2004, is included as Exhibit 10.20 to the Registrant's 8-K filed on September 17, 2004, which is incorporated by this reference herein.
- 10.21 Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.22 Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.24 Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.25



Edgar Filing: PLUMAS BANCORP - Form 10-Q

Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

10.27 Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

10.28 Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

10.33 Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.

**Table of Contents**

- 10.34 Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.35 Letter Agreement, dated January 30, 2009 by and between Plumas Bancorp, Inc. and the United States Department of the Treasury and Securities Purchase Agreement Standard Terms attached thereto, is included as exhibit 10.1 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.
- 10.36 Form of Senior Executive Officer letter agreement, is included as exhibit 10.2 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.
- 10.37 Deferred Fee Agreement of Alvin Blickenstaff is included as Exhibit 10.37 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.40 2001 Stock Option Plan as amended is included as exhibit 99.1 of the Form S-8 filed July 23, 2002, File No. 333-96957, which is incorporated by this reference herein.
- 10.41 Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.42 Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.
- 10.43 Plumas Bank 401(k) Profit Sharing Plan as amended is included as exhibit 99.1 of the Form S-8 filed February 14, 2003, File No. 333-103229, which is incorporated by this reference herein.
- 10.44 Executive Salary Continuation Agreement of Robert T. Herr dated June 4, 2002, is included as Exhibit 10.44 to the Registrant's 10-Q for March 31, 2003, which is incorporated by this reference herein.
- 10.46 1991 Stock Option Plan as amended is included as Exhibit 10.46 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
- 10.47 Specimen form of Incentive Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.47 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
- 10.48 Specimen form of Non-Qualified Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.48 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
- 10.49 Amended and Restated Plumas Bancorp Stock Option Plan is included as Exhibit 10.49 to the Registrant's 10-Q for September 30, 2006, which is incorporated by this reference herein.
- 10.50 Executive Salary Continuation Agreement of Rose Dembosz, is included as exhibit 10.50 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.51

Edgar Filing: PLUMAS BANCORP - Form 10-Q

First Amendment to Split Dollar Agreement of Andrew J. Ryback, is included as exhibit 10.51 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.

10.52 Executive Salary Continuation Agreement of Douglas N. Biddle dated December 17, 2008, is included as exhibit 10.52 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.

10.53 Second Amendment to Executive Salary Continuation Agreement of Douglas N. Biddle dated June 2, 1994 and Amended February 16, 2000, is included as exhibit 10.53 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.

**Table of Contents**

- 10.54 First Amendment to Addendum A of Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as exhibit 10.54 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.55 First Amendment to Addendum B of Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as exhibit 10.55 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.56 Second Amendment to Executive Salary Continuation Agreement of Robert T. Herr dated June 4, 2002 and Amended September 15, 2004, is included as exhibit 10.56 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.57 First Amendment to Split Dollar Agreements of Robert T. Herr dated September 15, 2004, is included as exhibit 10.57 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.58 Executive Salary Continuation Agreement of Robert T. Herr dated December 17, 2008, is included as exhibit 10.58 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.
- 10.64 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Alvin Blickenstaff adopted on September 19, 2007, is included as Exhibit 10.64 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.65 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Arthur C. Grohs adopted on September 19, 2007, is included as Exhibit 10.65 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.67 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Terrance J. Reeson adopted on September 19, 2007, is included as Exhibit 10.67 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.69 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Daniel E. West adopted on September 19, 2007, is included as Exhibit 10.69 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.70 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Gerald W. Fletcher adopted on October 9, 2007, is included as Exhibit 10.70 to the Registrant's 10-Q for September 30, 2007, which is incorporated by this reference herein.
- 11 Computation of per share earnings appears in the attached 10-Q under Plumas Bancorp and Subsidiary Notes to Condensed Consolidated Financial Statements as Footnote 6 Earnings Per Share.
- 31.1 Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated November 2, 2009.
- 31.2

Edgar Filing: PLUMAS BANCORP - Form 10-Q

Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated November 2, 2009.

- 32.1 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 2, 2009.
- 32.2 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 2, 2009.

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PLUMAS BANCORP**

(Registrant)

Date: November 2, 2009

/s/ Andrew J. Ryback  
Andrew J. Ryback  
*Executive Vice President Chief Financial  
Officer*

/s/ D. N. Biddle  
Douglas N. Biddle  
*President and Chief Executive Officer*

**Table of Contents**

EXHIBIT INDEX

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.1                       | Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant s Form S-4, File No. 333-84534, which is incorporated by reference herein.   |
| 3.2                       | Bylaws of Registrant as amended on January 21, 2009, is included as exhibit 3.2 to the Registrant s 10-K for December 31, 2008, which is incorporated by this reference herein.                                       |
| 3.3                       | Amendment of the Articles of Incorporation of Registrant dated November 1, 2002, is included as exhibit 3.3 to the Registrant s 10-Q for September 30, 2005, which is incorporated by this reference herein.          |
| 3.4                       | Amendment of the Articles of Incorporation of Registrant dated August 17, 2005, is included as exhibit 3.4 to the Registrant s 10-Q for September 30, 2005, which is incorporated by this reference herein.           |
| 4                         | Specimen form of certificate for Plumas Bancorp included as exhibit 4 to the Registrant s Form S-4, File No. 333-84534, which is incorporated by reference herein.  |
| 4.1                       | Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, is included as exhibit 4.1 to Registrant s 8-K filed on January 30, 2009, which is incorporated by this reference herein.  |
| 10.1                      | Executive Salary Continuation Agreement of Andrew J. Ryback dated December 17, 2008, is included as exhibit 10.1 to the Registrant s 10-K for December 31, 2008, which is incorporated by this reference herein.      |
| 10.2                      | Split Dollar Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.2 to the Registrant s 8-K filed on October 17, 2005, which is incorporated by this reference herein.                      |
| 10.5                      | Employment Agreement of Douglas N. Biddle dated February 18, 2009, is included as Exhibit 10.05 to the Registrant s 8-K filed on February 19, 2009, which is incorporated by this reference herein.                   |
| 10.6                      | Executive Salary Continuation Agreement as amended of Douglas N. Biddle dated June 2, 1994, is included as Exhibit 10.6 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein. |
| 10.7                      | Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as Exhibit 10.7 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.                        |
| 10.8                      | Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant s 10-Q for March 31, 2007, which is incorporated by this reference herein.                             |
| 10.11                     | First Amendment to Executive Salary Continuation Agreement of Robert T. Herr dated September 15, 2004, is included as Exhibit 10.11 to the Registrant s 8-K filed on September 17,                                    |

Edgar Filing: PLUMAS BANCORP - Form 10-Q

2004, which is incorporated by this reference herein.

- 10.18 Amended and Restated Director Retirement Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.18 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
  - 10.19 Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
  - 10.20 Split Dollar Agreements of Robert T. Herr dated September 15, 2004, is included as Exhibit 10.20 to the Registrant's 8-K filed on September 17, 2004, which is incorporated by this reference herein.
-



**Table of Contents**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.21                     | Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.  |
| 10.22                     | Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.24                     | Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.25                     | Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.27                     | Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.28                     | Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.33                     | Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.34                     | Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.   |
| 10.35                     | Letter Agreement, dated January 30, 2009 by and between Plumas Bancorp, Inc. and the United States Department of the Treasury and Securities Purchase Agreement - Standard Terms attached thereto, is included as exhibit 10.1 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein. |
| 10.36                     | Form of Senior Executive Officer letter agreement, is included as exhibit 10.2 to Registrant's 8-K filed on January 30, 2009, which is incorporated by this reference herein.   |
| 10.37                     | Deferred Fee Agreement of Alvin Blickenstaff is included as Exhibit 10.37 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.  |
| 10.40                     | 2001 Stock Option Plan as amended is included as exhibit 99.1 of the Form S-8 filed July 23, 2002, File No. 333-96957, which is incorporated by this reference herein.  |
| 10.41                     | Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.  |
| 10.42                     |   |

## Edgar Filing: PLUMAS BANCORP - Form 10-Q

Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant's 10-Q for March 31, 2009, which is incorporated by this reference herein.

- 10.43 Plumas Bank 401(k) Profit Sharing Plan as amended is included as exhibit 99.1 of the Form S-8 filed February 14, 2003, File No. 333-103229, which is incorporated by this reference herein.
  - 10.44 Executive Salary Continuation Agreement of Robert T. Herr dated June 4, 2002, is included as Exhibit 10.44 to the Registrant's 10-Q for March 31, 2003, which is incorporated by this reference herein.
  - 10.46 1991 Stock Option Plan as amended is included as Exhibit 10.46 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
-

**Table of Contents**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.47                     | Specimen form of Incentive Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.47 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.  |
| 10.48                     | Specimen form of Non-Qualified Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.48 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.  |
| 10.49                     | Amended and Restated Plumas Bancorp Stock Option Plan is included as Exhibit 10.49 to the Registrant's 10-Q for September 30, 2006, which is incorporated by this reference herein.   |
| 10.50                     | Executive Salary Continuation Agreement of Rose Dembosz, is included as exhibit 10.50 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.   |
| 10.51                     | First Amendment to Split Dollar Agreement of Andrew J. Ryback, is included as exhibit 10.51 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.   |
| 10.52                     | Executive Salary Continuation Agreement of Douglas N. Biddle dated December 17, 2008, is included as exhibit 10.52 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.  |
| 10.53                     | Second Amendment to Executive Salary Continuation Agreement of Douglas N. Biddle dated June 2, 1994 and Amended February 16, 2000, is included as exhibit 10.53 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein. |
| 10.54                     | First Amendment to Addendum A of Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as exhibit 10.54 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.                              |
| 10.55                     | First Amendment to Addendum B of Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as exhibit 10.55 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.                              |
| 10.56                     | Second Amendment to Executive Salary Continuation Agreement of Robert T. Herr dated June 4, 2002 and Amended September 15, 2004, is included as exhibit 10.56 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.   |
| 10.57                     | First Amendment to Split Dollar Agreements of Robert T. Herr dated September 15, 2004, is included as exhibit 10.57 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.   |
| 10.58                     | Executive Salary Continuation Agreement of Robert T. Herr dated December 17, 2008, is included as exhibit 10.58 to the Registrant's 10-K for December 31, 2008, which is incorporated by this reference herein.   |
| 10.64                     |   |

Edgar Filing: PLUMAS BANCORP - Form 10-Q

First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Alvin Blickenstaff adopted on September 19, 2007, is included as Exhibit 10.64 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.

10.65 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Arthur C. Grohs adopted on September 19, 2007, is included as Exhibit 10.65 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.

10.67 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Terrance J. Reeson adopted on September 19, 2007, is included as Exhibit 10.67 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.

10.69 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Daniel E. West adopted on September 19, 2007, is included as Exhibit 10.69 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.

---

**Table of Contents**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.70                     | First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Gerald W. Fletcher adopted on October 9, 2007, is included as Exhibit 10.70 to the Registrant's 10-Q for September 30, 2007, which is incorporated by this reference herein. |
| 11                        | Computation of per share earnings appears in the attached 10-Q under Plumas Bancorp and Subsidiary Notes to Condensed Consolidated Financial Statements as Footnote 6 Earnings Per Share.  |
| 31.1                      | Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated November 2, 2009.  |
| 31.2                      | Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated November 2, 2009.  |
| 32.1                      | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 2, 2009.  |
| 32.2                      | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 2, 2009.  |