

PLUMAS BANCORP
Form 10-Q
November 10, 2011

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**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, 2011

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 November 4, 2011
4,776,339 shares.

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PLUMAS BANCORP
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(In thousands, except share data)

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 83,833	\$ 64,628
Investment securities	51,743	63,017
Loans, less allowance for loan losses of \$6,460 at September 30, 2011 and \$7,324 at December 31, 2010	289,350	307,151
Premises and equipment, net	13,682	14,431
Bank owned life insurance	10,724	10,463
Real estate and vehicles acquired through foreclosure	8,984	8,884
Accrued interest receivable and other assets	14,570	15,906
Total assets	\$ 472,886	\$ 484,480
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	\$ 130,307	\$ 111,802
Interest bearing	279,636	313,085
Total deposits	409,943	424,887
Accrued interest payable and other liabilities	13,122	11,295
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	433,375	446,492
Commitments and contingencies (Note 6)		
Shareholders equity:		
Serial preferred stock, no par value; 10,000,000 shares authorized; 11,949 issued and outstanding at September 30, 2011 and December 31, 2010	11,747	11,682
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at September 30, 2011 and December 31, 2010	5,981	6,027
Retained earnings	21,485	20,331
Accumulated other comprehensive income (loss)	298	(52)
Total shareholders equity	39,511	37,988
Total liabilities and shareholders equity	\$ 472,886	\$ 484,480

See notes to unaudited condensed consolidated financial statements.

Table of Contents**PLUMAS BANCORP****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS****(Unaudited)**

(In thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest Income:				
Interest and fees on loans	\$ 4,322	\$ 4,764	\$ 13,007	\$ 14,266
Interest on investment securities:				
Taxable	223	390	923	1,323
Exempt from Federal income taxes		4	6	119
Other	39	8	91	27
Total interest income	4,584	5,166	14,027	15,735
Interest Expense:				
Interest on deposits	307	616	1,209	2,114
Interest on borrowings		1		135
Interest on junior subordinated deferrable interest debentures	76	84	228	235
Other	13	1	33	3
Total interest expense	396	702	1,470	2,487
Net interest income before provision for loan losses	4,188	4,464	12,557	13,248
Provision for Loan Losses	400	1,300	2,700	3,700
Net interest income after provision for loan losses	3,788	3,164	9,857	9,548
Non-Interest Income:				
Service charges	881	917	2,582	2,747
Sale of merchant processing portfolio				1,435
Gain on sale of investments		200	612	780
Gain on sale of loans	657	360	1,795	600
Earnings on Bank owned life insurance policies	108	112	333	334
Other	245	199	632	644
Total non-interest income	1,891	1,788	5,954	6,540
Non-Interest Expenses:				
Salaries and employee benefits	2,304	2,257	7,058	7,369
Occupancy and equipment	768	792	2,337	2,327
Other	2,021	1,598	5,493	5,113
Total non-interest expenses	5,093	4,647	14,888	14,809

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Income before provision for income taxes	586	305	923	1,279
Provision for Income Taxes	215	109	227	373
Net income	\$ 371	\$ 196	\$ 696	\$ 906
Preferred Stock Dividends and Discount Accretion	(171)	(171)	(513)	(513)
Net income available to common shareholders	\$ 200	\$ 25	\$ 183	\$ 393
Basic earnings per share	\$ 0.04	\$ 0.01	\$ 0.04	\$ 0.08
Diluted earnings per share	\$ 0.04	\$ 0.01	\$ 0.04	\$ 0.08

See notes to unaudited condensed consolidated financial statements.

Table of Contents**PLUMAS BANCORP****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****(Unaudited)**

(In thousands)

	For the Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 696	\$ 906
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,700	3,700
Change in deferred loan origination costs/fees, net	(328)	(109)
Depreciation and amortization	1,083	1,296
Stock-based compensation expense	(46)	15
Amortization of investment security premiums	258	370
Accretion of investment security discounts	(16)	(48)
Net loss (gain) on sale of other real estate	608	(47)
Net gain on sale of vehicles owned		(17)
Gain on sale of investments	(612)	(780)
Gain on sale of loans held for sale	(1,795)	(600)
Loans originated for sale	(14,907)	(12,184)
Proceeds from secured borrowing		2,911
Proceeds from loan sales	20,681	9,072
Earnings on Bank owned life insurance policies	(261)	(265)
Provision for losses on other real estate	337	353
Decrease in accrued interest receivable and other assets	1,165	4,943
Decrease in accrued interest payable and other liabilities	(491)	(69)
Net cash provided by operating activities	9,072	9,447
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	20,065	25,841
Purchases of available-for-sale investment securities	(39,245)	(29,344)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	4,069	6,384
Proceeds from sale of available-for-sale securities	27,351	21,979
Net decrease in loans	1,605	8,698
Proceeds from sale of other vehicles	24	157
Proceeds from sale of other real estate	4,259	3,105
Purchase of premises and equipment	(123)	(1,186)
Net cash provided by investing activities	18,005	35,634

Continued on next page.

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

	For the Nine Months Ended September 30,	
	2011	2010
Cash Flows from Financing Activities:		
Net increase (decrease) in demand, interest bearing and savings deposits	\$ 16,999	\$ (1,816)
Net (decrease) increase in time deposits	(31,943)	620
Net decrease in short-term borrowings		(40,000)
Net increase in securities sold under agreements to repurchase	7,072	
Payment of cash dividends on preferred stock		(150)
 Net cash used in financing activities	 (7,872)	 (41,346)
 Increase in cash and cash equivalents	 19,205	 3,735
Cash and Cash Equivalents at Beginning of Year	64,628	59,493
 Cash and Cash Equivalents at End of Period	 \$ 83,833	 \$ 63,228
 Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	\$ 1,397	\$ 2,271
Income taxes	\$ 2	\$
 Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	\$ 5,275	\$ 1,312
Net change in unrealized income on available-for-sale securities	\$ 350	\$ (15)
See notes to unaudited condensed consolidated financial statements.		

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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 eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. In addition to its branch network, the Bank operates an administrative 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 participated in the Federal Deposit Insurance Corporation (FDIC) Transaction Account Guarantee Program. Under the program, through December 31, 2010, all noninterest-bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account. On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which, in part, permanently raised the current standard maximum deposit insurance amount to \$250,000. Amendments related to the enactment of the Dodd-Frank Act now provide full deposit insurance coverage for noninterest bearing deposit transaction accounts beginning December 31, 2010 for an additional two year period.

2. REGULATORY MATTERS

Effective March 16, 2011, in connection with the Bank's regularly scheduled 2010 Joint FDIC and California Department of Financial Institutions (DFI) examination, the Bank entered into a Consent Order (Agreement) with the FDIC and the DFI. The FDIC and DFI in the Agreement, require certain actions to be taken by the Bank including among others:

Within 240 days of the date of the Agreement, increase and maintain the Bank's leverage ratio to at least 10% and within 120 days of the date of the Agreement, maintain its total risk-based capital ratio at 13% or more;

Reduce or eliminate certain classified assets to a level not exceeding sixty percent of Tier I Capital and allowance for loan and lease losses (ALLL) within 180 days of the date of the Agreement and reducing them to fifty percent of Tier I Capital and ALLL within 240 days of the Agreement;

Obtain an independent study of the management and personnel structure of the Bank within 150 days of the date of the Agreement to determine whether the Bank is staffed by qualified individuals commensurate with its size and risk profile to ensure the safe and profitable operation of the Bank;

Not pay cash dividends to Plumas Bancorp without the prior written consent of the FDIC and DFI.

One of Management's top priorities has and will continue to be to reduce its problem assets. The Agreement serves to formalize and reinforce the Company's on-going plans to strengthen the Company's operations and to implement the Bank's strategic plan. Currently the Bank has exceeded the Agreement's total risk-based capital ratio goal of 13%, met the sixty percent target of classified assets to Tier I Capital and ALLL and transmitted the independent study of management which confirmed the qualifications of current management. Management is working to meet the leverage ratio target of 10% by year end through a combination of profit retention and a reduction in higher rate deposits resulting in a corresponding reduction in lower rate interest-earning assets. As of September 30, 2011 the Bank's leverage ratio was 9.7% and total risk-based capital ratio was 14.9%.

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The Agreement will remain effective until amended, suspended or terminated by the FDIC and DFI. The Bank and its management have already undertaken multiple initiatives to comply with the terms of the Agreement, and will diligently continue such effort during the life of the Agreement.

On July 28, 2011 the Company entered into an agreement with the Federal Reserve Bank of San Francisco (the FRB Agreement). Under the terms of the FRB Agreement, Plumas Bancorp has agreed to take certain actions that are designed to maintain its financial soundness so that it may continue to serve as a source of strength to the Bank. Among other things, the FRB Agreement requires prior written approval related to the payment or taking of dividends and distributions, making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities, incurrence of debt, and the purchase or redemption of stock. In addition, the FRB Agreement requires Plumas Bancorp to submit, within 60 days of the FRB Agreement, a written statement of Plumas Bancorp s planned sources and uses of cash for debt service, operating expense and other purposes (Cash Flow Statement) for the remainder of 2011 and annually thereafter. The Company submitted the Cash Flow Statement within the required time frame.

3. 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, 2011 and December 31, 2010 and its results of operations for the three-month and nine-month periods ended September 30, 2011 and 2010 and its cash flows for the nine-month periods ended September 30, 2011 and 2010. Certain reclassifications have been made to prior period s balances to conform to classifications used in 2011. 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 2010 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month and nine-month periods ended September 30, 2011 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.

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The amortized cost and estimated fair value of investment securities at September 30, 2011 and December 31, 2010 consisted of the following:

		September 30, 2011		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	\$ 30,316,000	\$ 181,000	\$ (22,000)	\$ 30,475,000
U.S. Government agencies collateralized by mortgage obligations	20,920,000	352,000	(4,000)	21,268,000
	\$ 51,236,000	\$ 533,000	\$ (26,000)	\$ 51,743,000

Unrealized gains on available-for-sale investment securities totaling \$507,000 were recorded, net of \$209,000 in tax benefit, as accumulated other comprehensive income within shareholders' equity at September 30, 2011. During the nine months ended September 30, 2011 the Company sold twenty-five available-for-sale securities for \$27,351,000. The Company realized a gain on sale from twenty-three of these securities totaling \$636,000 and a loss on sale on two securities of \$24,000 resulting in the recognition of a \$612,000 net gain on sale. During the nine months ended September 30, 2010 the Company sold forty-eight available-for-sale securities for \$21,979,000, recording a \$780,000 gain on sale. There were no securities sold at a loss during the nine months ended September 30, 2010.

		December 31, 2010		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasury securities	\$ 1,025,000	\$ 7,000		\$ 1,032,000
U.S. Government agencies	40,662,000	58,000	\$ (290,000)	40,430,000
U.S. Government agencies collateralized by mortgage obligations	21,110,000	270,000	(107,000)	21,273,000
Obligations of states and political subdivisions	308,000		(26,000)	282,000
	\$ 63,105,000	\$ 335,000	\$ (423,000)	\$ 63,017,000

Unrealized losses on available-for-sale investment securities totaling \$88,000 were recorded, net of \$36,000 in tax benefit, as accumulated other comprehensive loss within shareholders' equity at December 31, 2010. During the year ended December 31, 2010 the Company sold sixty-five available-for-sale securities for \$40,902,000, recording a \$1,160,000 gain on sale.

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Investment securities with unrealized losses at September 30, 2011 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months	
	Estimated	
	Fair	Unrealized
	Value	Losses
Debt securities:		
U.S. Government agencies	\$ 7,048,000	\$ 22,000
U.S. Government agencies collateralized by mortgage obligations	1,978,000	4,000
	\$ 9,026,000	\$ 26,000

Investment securities with unrealized losses at December 31, 2010 are summarized and classified according to the duration of the loss period as follows:

	Less than 12 Months	
	Estimated	
	Fair	Unrealized
	Value	Losses
Debt securities:		
U.S. Government agencies	\$ 14,763,000	\$ 290,000
U.S. Government agencies collateralized by mortgage obligations	13,205,000	107,000
Obligations of states and political subdivisions	282,000	26,000
	\$ 28,250,000	\$ 423,000

At September 30, 2011, the Company held 44 securities of which 5 were in a loss position. Of the securities in a loss position, all were in a loss position for less than twelve months. Of the 5 securities 4 are U.S. government agencies and 1 is a U.S. Government agency collateralized by mortgage obligations. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. 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. As of September 30, 2011, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. 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, 2011 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at September 30, 2011 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.

	Amortized	Estimated
	Cost	Fair
		Value
After one year through five years	\$ 30,316,000	\$ 30,475,000
Investment securities not due at a single maturity date:		

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Government-guaranteed mortgage-backed securities	20,920,000	21,268,000
	\$ 51,236,000	\$ 51,743,000

Investment securities with amortized costs totaling \$46,380,000 and \$36,828,000 and estimated fair values totaling \$46,885,000 and \$36,814,000 at September 30, 2011 and December 31, 2010, respectively, were pledged to secure deposits and repurchase agreements.

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Outstanding loans are summarized below, in thousands:

	September 30, 2011	December 31, 2010
Commercial	\$ 30,213	\$ 33,433
Agricultural	38,858	38,469
Real estate residential	43,169	43,291
Real estate commercial	113,332	119,222
Real estate construction and land development	22,708	31,199
Equity lines of credit	37,319	36,946
Installment	2,817	2,879
Other	6,977	8,761
	295,393	314,200
Deferred loan costs, net	417	275
Allowance for loan losses	(6,460)	(7,324)
	\$ 289,350	\$ 307,151

At September 30, 2011 and December 31, 2010, nonaccrual loans totaled \$15,475,000 and \$25,313,000, respectively. Changes in the allowance for loan losses were as follows, in thousands:

	Nine Months Ended September 30,	
	2011	2010
Balance, beginning of period	\$ 7,324	\$ 9,568
Provision charged to operations	2,700	3,700
Losses charged to allowance	(3,858)	(7,208)
Recoveries	294	562
Balance, end of period	\$ 6,460	\$ 6,622

	Three Months Ended September 30,	
	2011	2010
Balance, beginning of period	\$ 7,267	\$ 6,146
Provision charged to operations	400	1,300
Losses charged to allowance	(1,284)	(1,263)
Recoveries	77	439
Balance, end of period	\$ 6,460	\$ 6,622

Troubled Debt Restructurings:

The Company has allocated \$474,000 and \$271,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of September 30, 2011 and December 31, 2010. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings on September 30, 2011 and December 31, 2010.

During the period ending September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 month to 2 years. Modifications involving an extension of the maturity date were for periods ranging from 1 month to 10 years.

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The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ending September 30, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Investment
Troubled Debt Restructurings:			
Commercial	2	\$ 129,000	\$ 129,000
Agricultural	1	266,000	266,000
Real Estate:			
Construction and land development	3	4,873,000	4,873,000
Other	17	153,000	154,000
Total	23	\$ 5,421,000	\$ 5,422,000

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ending September 30, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Investment
Troubled Debt Restructurings:			
Commercial	1	\$ 14,000	\$ 14,000
Agricultural	1	266,000	266,000
Other	5	57,000	57,000
Total	7	\$ 338,000	\$ 338,000

The troubled debt restructurings described above did not increase the allowance for loan losses or result in charge offs during the periods ending September 30, 2011.

The following table presents loans by class modified as troubled debt restructurings during the last twelve months which there was a payment default during the nine months ended September 30, 2011:

	Number of Loans	Recorded Investment
Troubled Debt Restructurings:		
Real Estate:		
Construction and land development	1	\$ 125,000
Residential	1	170,000
Equity LOC	1	101,000

Total 3 \$ 396,000

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no loans modified as troubled debt restructurings during the last twelve months that were in payment default during the nine months ended September 30, 2011. The troubled debt restructurings described above did not increase the allowance for loan losses or result in charge offs during the periods ending September 30, 2011.

The terms of certain other loans were modified during the period ending September 30, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of September 30, 2011 of \$9.2 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy.

Certain loans which were modified during the period ending September, 30, 2011 and did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment that was considered to be insignificant had delays in payment ranging from 30 days to 2 months.

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The following table shows the loan portfolio allocated by management's internal risk ratings at the dates indicated, in thousands:

September 30, 2011

Grade:	Commercial Credit Exposure						Equity LOC	Total
	Credit Risk Profile by Internally Assigned Grade							
	Commercial	Agricultural	Residential	Commercial	Construction			
				Real Estate-	Real Estate-	Real Estate-		
Pass	\$ 26,765	\$ 34,920	\$ 39,891	\$ 92,243	\$ 13,157	\$ 34,102	\$ 241,078	
Watch	983	1,468	952	7,297	2,339	1,422	14,461	
Substandard	2,445	2,470	2,326	13,792	7,212	1,783	30,028	
Doubtful	20					12	32	
Total	\$ 30,213	\$ 38,858	\$ 43,169	\$ 113,332	\$ 22,708	\$ 37,319	\$ 285,599	

December 31, 2010

Grade:	Commercial Credit Exposure						Equity LOC	Total
	Credit Risk Profile by Internally Assigned Grade							
	Commercial	Agricultural	Residential	Commercial	Construction			
				Real Estate-	Real Estate-	Real Estate-		
Pass	\$ 28,923	\$ 34,081	\$ 39,194	\$ 96,527	\$ 15,987	\$ 34,787	\$ 249,499	
Watch	904	646	1,738	8,192	2,165	585	14,230	
Substandard	3,606	3,742	2,295	14,503	12,982	1,502	38,630	
Doubtful			64		65	72	201	
Total	\$ 33,433	\$ 38,469	\$ 43,291	\$ 119,222	\$ 31,199	\$ 36,946	\$ 302,560	

Grade:	Consumer Credit Exposure			Consumer Credit Exposure		
	Credit Risk Profile Based on Payment Activity			Credit Risk Profile Based on Payment Activity		
	September 30, 2011			December 31, 2010		
	Installment	Other	Total	Installment	Other	Total
Performing	\$ 2,660	\$ 6,828	\$ 9,488	\$ 2,830	\$ 8,643	\$ 11,473
Non-performing	157	149	306	49	118	167
Total	\$ 2,817	\$ 6,977	\$ 9,794	\$ 2,879	\$ 8,761	\$ 11,640

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The following tables show the allocation of the allowance for loan losses by impairment methodology at the dates indicated, in thousands:

	Commercial	Agricultural	Residential	Commercial	Construction	Equity LOC	Installment	Other	Total
			Real Estate-	Real Estate-	Real Estate-				
Nine months ended 9/30/2011:									
Allowance for Loan Losses									
Beginning balance	\$ 760	\$ 184	\$ 632	\$ 1,819	\$ 3,011	\$ 652	\$ 66	\$ 200	\$ 7,324
Charge-offs	(386)	(93)	(127)	(252)	(2,484)	(311)	(87)	(118)	(3,858)
Recoveries	87	102		16	5		10	74	294
Provision	489	68	(32)	228	1,494	307	146		2,700
Ending balance	\$ 950	\$ 261	\$ 473	\$ 1,811	\$ 2,026	\$ 648	\$ 135	\$ 156	\$ 6,460

**Three months
ended 9/30/2011:**

Allowance for Loan Losses									
Beginning balance	\$ 1,055	\$ 258	\$ 558	\$ 1,883	\$ 2,674	\$ 552	\$ 117	\$ 170	\$ 7,267
Charge-offs	(220)	1	(79)	(8)	(695)	(239)	(23)	(21)	(1,284)
Recoveries	46			15			3	13	77
Provision	69	2	(6)	(79)	47	335	38	(6)	400
Ending balance	\$ 950	\$ 261	\$ 473	\$ 1,811	\$ 2,026	\$ 648	\$ 135	\$ 156	\$ 6,460

**September 30,
2011:**

Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	\$ 224	\$ 118	\$ 75	\$ 149	\$ 194	\$ 38	\$ 31	\$ 3	\$ 832

Ending balance: collectively evaluated for impairment	\$ 726	\$ 143	\$ 398	\$ 1,662	\$ 1,832	\$ 610	\$ 104	\$ 153	\$ 5,628
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Loans										
Ending balance	\$ 30,213	\$ 38,858	\$ 43,169	\$ 113,332	\$ 22,708	\$ 37,319	\$ 2,817	\$ 6,977	\$ 295,393	
Ending balance: individually evaluated for impairment	\$ 5,153	\$ 1,376	\$ 3,255	\$ 5,578	\$ 6,601	\$ 1,297	\$ 157	\$ 78	\$ 23,495	
Ending balance: collectively evaluated for impairment	\$ 25,060	\$ 37,482	\$ 39,914	\$ 107,754	\$ 16,107	\$ 36,022	\$ 2,660	\$ 6,899	\$ 271,898	

**December 31,
2010:**

Allowance for Loan Losses										
Ending balance	\$ 760	\$ 184	\$ 632	\$ 1,819	\$ 3,011	\$ 652	\$ 66	\$ 200	\$ 7,324	
Ending balance: individually evaluated for impairment	\$ 22	\$	\$ 121	\$ 201	\$ 1,479	\$ 72	\$ 8	\$	\$ 1,903	
Ending balance: collectively evaluated for impairment	\$ 738	\$ 184	\$ 511	\$ 1,618	\$ 1,532	\$ 580	\$ 58	\$ 200	\$ 5,421	

Loans										
Ending balance	\$ 33,433	\$ 38,469	\$ 43,291	\$ 119,222	\$ 31,199	\$ 36,946	\$ 2,879	\$ 8,761	\$ 314,200	
Ending balance: individually evaluated for impairment	\$ 2,706	\$ 868	\$ 3,870	\$ 8,204	\$ 11,501	\$ 1,382	\$ 106	\$ 118	\$ 28,755	
Ending balance: collectively evaluated for impairment	\$ 30,727	\$ 37,601	\$ 39,421	\$ 111,018	\$ 19,698	\$ 35,564	\$ 2,773	\$ 8,643	\$ 285,445	

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The following table shows an aging analysis of the loan portfolio by the time past due, in thousands:

	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
As of September 30, 2011:						
Commercial:						
Commercial	\$ 89	\$	\$ 5,024	\$ 5,113	\$ 25,100	\$ 30,213
Agricultural			1,110	1,110	37,748	38,858
Real estate construction	65		535	600	22,108	22,708
Real estate commercial	3,195		5,578	8,773	104,559	113,332
Residential:						
Real estate residential	172		1,708	1,880	41,289	43,169
Equity LOC	521		1,286	1,807	35,512	37,319
Consumer:						
Installment	12		157	169	2,648	2,817
Other	215	72	77	364	6,613	6,977
Total	\$ 4,269	\$ 72	\$ 15,475	\$ 19,816	\$ 275,577	\$ 295,393

As of December 31, 2010:

Commercial:						
Commercial	\$ 352	\$	\$ 2,706	\$ 3,058	\$ 30,375	\$ 33,433
Agricultural	272		868	1,140	37,329	38,469
Real estate construction	136		9,797	9,933	21,266	31,199
Real estate commercial	802		8,204	9,006	110,216	119,222
Residential:						
Real estate residential	400		2,189	2,589	40,702	43,291
Equity LOC	494		1,382	1,876	35,070	36,946
Consumer:						
Installment	56		49	105	2,774	2,879
Other	348	45	118	511	8,250	8,761
Total	\$ 2,860	\$ 45	\$ 25,313	\$ 28,218	\$ 285,982	\$ 314,200

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The following table shows information related to impaired loans at the dates indicated, in thousands:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
As of September 30, 2011:					
With no related allowance recorded:					
Commercial	\$ 4,072	\$ 4,432			
Agricultural	1,031	1,262			
Real estate construction	1,941	2,292			
Real estate commercial	2,903	3,170			
Real estate residential	1,773	1,774			
Equity Lines of Credit	1,150	1,150			
Installment	94	94			
Other	75	75			
With an allowance recorded:					
Commercial	1,081	1,081	\$ 224		
Agricultural	345	345	118		
Real estate construction	4,660	4,711	194		
Real estate commercial	2,675	2,683	149		
Real estate residential	1,482	1,509	75		
Equity Lines of Credit	147	147	38		
Installment	63	63	31		
Other	3	3	3		
Total:					
Commercial	5,153	5,513	224	\$ 3,361	\$ 11
Agricultural	1,376	1,607	118	1,296	34
Real estate construction	6,601	7,003	194	11,056	117
Real estate commercial	5,578	5,853	149	6,609	78
Real estate residential	3,255	3,283	75	3,575	109
Equity Lines of Credit	1,297	1,297	38	1,319	13
Installment	157	157	31	79	2
Other	78	78	3	110	8
Total	\$ 23,495	\$ 24,791	\$ 832	\$ 27,405	\$ 372

As of December 31, 2010:

With no related allowance recorded:

Commercial	\$ 2,680	\$ 3,018
Agricultural	868	1,109
Real estate construction	4,151	5,169
Real estate commercial	5,994	5,994
Real estate residential	2,244	2,245

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Equity Lines of Credit	1,310	1,310			
Installment	98	98			
Other	118	118			
With an allowance recorded:					
Commercial	26	26	\$	22	
Agricultural					
Real estate construction	7,350	8,770		1,479	
Real estate commercial	2,210	2,210		201	
Real estate residential	1,626	1,743		121	
Equity Lines of Credit	72	72		72	
Installment	8	8		8	
Other					
Total:					
Commercial	2,706	3,044	22	\$	1,924
Agricultural	868	1,109			\$
Real estate construction	11,501	13,939	1,479		102
Real estate commercial	8,204	8,204	201		100
Real estate residential	3,870	3,988	121		261
Equity Lines of Credit	1,382	1,382	72		121
Installment	106	106	8		565
Other	118	118			44
					2
					11
Total	\$	28,755	\$	31,890	\$
				1,903	\$
				20,833	\$
					608

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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 results 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 \$72,523,000 and \$71,605,000 and stand-by letters of credit of \$50,000 and \$164,000 at September 30, 2011 and December 31, 2010, respectively.

Of the loan commitments outstanding at September 30, 2011, \$898,000 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, 2011 or December 31, 2010.

7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing income 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 share and per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Income:				
Net income	\$ 371	\$ 196	\$ 696	\$ 906
Dividends on preferred shares	(171)	(171)	(513)	(513)
Net income available to common shareholders	\$ 200	\$ 25	\$ 183	\$ 393
Earnings Per Share:				
Basic earnings per share	\$ 0.04	\$ 0.01	\$ 0.04	\$ 0.08
Diluted earnings per share	\$ 0.04	\$ 0.01	\$ 0.04	\$ 0.08
Weighted Average Number of Shares Outstanding:				
Basic shares	4,776	4,776	4,776	4,776
Diluted shares	4,776	4,776	4,776	4,776

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.

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Total comprehensive income for the three months ended September 30, 2011 and 2010 totaled \$392,000 and \$57,000, respectively. Comprehensive income is comprised of unrealized gains (losses), net of taxes, on available-for-sale investment securities, which were \$21,000 and \$(139,000) for the three months ended September 30, 2011 and 2010, respectively, together with net income.

Total comprehensive income for the nine months ended September 30, 2011 and 2010 totaled \$994,000 and \$891,000, respectively. Comprehensive income is comprised of unrealized gains (losses), net of taxes, on available-for-sale investment securities, which were \$298,000 and \$(15,000) for the nine months ended September 30, 2011 and 2010, respectively, together with net income.

At September 30, 2011 and December 31, 2010, accumulated other comprehensive income (loss) totaled \$298,000 and \$(52,000), respectively, and is reflected, net of taxes, as a component of shareholders' equity.

9. STOCK-BASED COMPENSATION

In 2001 and 1991, the Company established Stock Option Plans for which 534,030 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants under incentive and nonstatutory agreements as of September 30, 2011.

The Company determines the fair value of the options previously granted on the date of grant using a Black-Scholes-Merton option pricing model that uses assumptions based on expected option life, expected stock volatility and the risk-free interest rate. The expected volatility assumptions used by the Company are based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options. The Company bases its expected life assumption on its historical experience and on the terms and conditions of the stock options it grants to employees. The risk-free rate is based on the U.S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of the grant. The Company also makes assumptions regarding estimated forfeitures that will impact the total compensation expenses recognized under the Plans.

The fair value of each option is estimated on the date of grant using the following assumptions.

	Nine Months Ended September 30, 2011
Expected life of stock options	5.3 years
Interest rate - stock options	2.26%
Volatility - stock options	46.1%
Dividend yields	3.05%
Weighted-average fair value of options granted during the period	\$ 0.99

No options were granted during the three months ended September 30, 2011 or the nine months ended September 30, 2010.

During the nine months ended September 30, 2011 and 2010 the Company recognized a net reversal of compensation cost related to a revision in the estimated forfeiture rate. This resulted in a credit to operating expense of \$46,000 during the nine months ended September 30, 2011 and reduction in the future income tax benefit of \$1,000. Compensation cost related to stock options recognized in operating expense was \$15,000 for the nine months ended September 30, 2010 and the future income tax benefit recognized was \$1,000.

Compensation cost related to stock options recognized in operating results was \$18,000 and \$43,000 for the quarters ended September 30, 2011 and 2010, respectively. The associated future income tax benefit recognized was \$1,000 and \$3,000 for the quarters ended September 30, 2011 and 2010 respectively.

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The following table summarizes information about stock option activity for the nine months ended September 30, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value (in thousands)
Options outstanding at December 31, 2010	312,030	\$ 13.41		
Options granted	248,000	\$ 2.95		
Options exercised				
Options cancelled	(26,000)	\$ 4.26		
Options outstanding at September 30, 2011	534,030	\$ 9.00	4.8	\$
Options exercisable at September 30, 2011	294,762	\$ 13.47	2.8	\$
Expected to vest after September 30, 2011	196,944	\$ 3.49	7.3	\$

At September 30, 2011, there was \$143,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 3.1 years. The total fair value of options vested during the nine months ended September 30, 2011 was \$153,000.

10. 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 determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is more likely than not that all or a portion of the deferred tax asset will not be realized. More likely than not is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon our analysis of available evidence, we have determined that it is more likely than not that all of our deferred income tax assets as of September 30, 2011 and December 31, 2010 will be fully realized and therefore no valuation allowance was recorded. 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.

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Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated statement of operations. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the quarter ended September 30, 2011.

11. FAIR VALUE MEASUREMENT**Fair Value of Financial Instruments**

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

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 83,833,000	\$ 83,833,000	\$ 64,628,000	\$ 64,628,000
Investment securities	51,743,000	51,743,000	63,017,000	63,017,000
Loans	289,350,000	292,590,000	307,151,000	304,045,000
FHLB stock	2,043,000	2,043,000	2,188,000	2,188,000
Bank owned life insurance	10,724,000	10,724,000	10,463,000	10,463,000
Accrued interest receivable	1,730,000	1,730,000	1,784,000	1,784,000
Financial liabilities:				
Deposits	\$ 409,943,000	\$ 410,234,000	\$ 424,887,000	\$ 425,009,000
Junior subordinated deferrable interest debentures	10,310,000	3,056,000	10,310,000	2,992,000
Accrued interest payable	696,000	696,000	623,000	623,000

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.

The following methods and assumptions were used by management to estimate the fair value of its financial instruments at September 30, 2011 and December 31, 2010:

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 carrying value of accrued interest receivable approximates its fair value.

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

FHLB stock: The carrying amount of FHLB stock approximates its fair value. This investment is carried at cost and is redeemable at par with certain restrictions.

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.

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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.

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, these items are not included in the table above.

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 Company measures fair value under the fair value hierarchy described below.

Level 1: Quoted prices for identical instruments traded in active exchange markets.

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3: Model based techniques that use one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

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.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Company did not change the methodology used to determine fair value for any financial instruments during 2011. There were no transfers between levels during the nine months ended September 30, 2011 or twelve months ended December 31, 2010.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

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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, 2011 and December 31, 2010, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and liabilities measured at fair value on a recurring basis at September 30, 2011 are summarized below:

	Total Fair Value	Fair Value Measurements at September 30, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government Agencies	\$ 30,475,000	\$ 30,475,000		
U.S. Government agencies collateralized by mortgage obligations	21,268,000		\$ 21,268,000	
	\$ 51,743,000	\$ 30,475,000	\$ 21,268,000	\$

Assets and liabilities measured at fair value on a recurring basis at December 31, 2010 are summarized below:

	Total Fair Value	Fair Value Measurements at December 31, 2010 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	\$ 1,032,000	\$ 1,032,000		
U.S. Government agencies	40,430,000	40,430,000		
U.S. Government agencies collateralized by mortgage obligations	21,273,000		\$ 21,273,000	
Obligations of states and political subdivisions	282,000	282,000		
	\$ 63,017,000	\$ 41,744,000	\$ 21,273,000	\$

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 2011 or 2010. Changes in fair market value are recorded in other comprehensive income.

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Assets and liabilities measured at fair value on a non-recurring basis at September 30, 2011 are summarized below:

	Total Fair Value	Fair Value Measurements at September 30, 2011 Using			Total Gains (Losses)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Impaired loans:					
Commercial	\$ 1,585,000		\$ 1,585,000		\$ (215,000)
Agricultural	376,000		376,000		(118,000)
Real estate residential	1,406,000		1,406,000		(13,000)
Real estate commercial	2,814,000		2,814,000		(297,000)
Real estate construction and land development	4,662,000		4,662,000		207,000
Equity lines of credit	109,000		109,000		(38,000)
Installment	32,000		32,000		(31,000)
Other					(3,000)
Total impaired loans	10,984,000		10,984,000		(508,000)
Other real estate	8,957,000		8,957,000		(337,000)
	\$ 19,941,000	\$	\$ 19,941,000	\$	\$ (845,000)

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2010 are summarized below:

	Total Fair Value	Fair Value Measurements at December 31, 2010 Using			Total Gains (Losses)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:					
Impaired loans					
Commercial	\$ 914,000		\$ 914,000		\$ (259,000)
Agricultural	243,000		243,000		(117,000)
Real estate residential	1,505,000		1,505,000		(213,000)

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Real estate commercial	2,009,000	2,009,000	(201,000)
Real estate construction and land development	8,850,000	8,850,000	(559,000)
Equity lines of credit			(10,000)
Installment			(8,000)
Other			11,000
Total impaired loans	13,521,000	13,521,000	(1,356,000)
Other real estate	8,867,000	8,867,000	(235,000)
	\$ 22,388,000	\$ 22,388,000	\$ (1,591,000)

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The Company has no liabilities which are reported at fair value.

The following methods were used to estimate the fair value of each class of assets above.

Impaired Loans: The fair value of impaired loans is based on the fair value of the collateral, if collateral dependent or the present value of the expected cash flows discounted at the loan's effective rate for those loans not collateral dependent. If the Company determines that the value of an impaired loan is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for loan losses. Total losses of \$508,000 and \$1,356,000 represent impairment charges recognized during the nine months and year ended September 30, 2011 and December 31, 2010, respectively related to the above impaired loans.

Other Real Estate: The fair value of other real estate is based on property appraisals at the time of transfer and as appropriate thereafter, less estimated costs to sell. Estimated costs to sell other real estate were based on standard market factors. Management periodically reviews other real estate 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.

12. FINANCIAL ACCOUNTING STANDARDS

Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. ASU 2011-01 approved the deferral of certain disclosure requirements surrounding TDRs included in ASU 2010-20, which were scheduled to be effective on January 1, 2011. The disclosure requirements were delayed until the FASB finalized the standards update related to their exposure draft, *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*. ASU 2011-02 provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a TDR. The new guidance will require creditors to evaluate modifications and restructurings of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered TDR. The amendments are effective for the first interim or annual period beginning on or after June 15, 2011. The disclosures which were deferred by ASU 2011-01 are required for interim and annual periods beginning on or after June 15, 2011. The adoption of this guidance did not have an impact on the Company's financial position, results of operation or cash flows.

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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.

INTRODUCTION

The following discussion and analysis sets forth certain statistical information relating to the Company as of September 30, 2011 and December 31, 2010 and for the three and nine month periods ended September 30, 2011 and 2010. 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, 2010.

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

CRITICAL ACCOUNTING POLICIES

There have been no changes to the Company's critical accounting policies from those disclosed in the Company's 2010 Annual Report to Shareholders on Form 10-K.

This discussion should be read in conjunction with our unaudited condensed consolidated financial statements, including the notes thereto, appearing elsewhere in this report.

IMPACT OF RECENT LEGISLATION

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that will affect how community banks, thrifts, and small bank and thrift holding companies will be regulated in the future. Among other things, these provisions abolish the Office of Thrift Supervision and transfer its functions to the other federal banking agencies, relax rules regarding interstate branching, allow financial institutions to pay interest on business checking accounts, permanently raises the current standard maximum deposit insurance amount to \$250,000, and impose new capital requirements on bank and thrift holding companies. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which will be given the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. The Company's management is actively reviewing the provisions of the Dodd-Frank Act, many of which are phased-in over the next several months and years, and assessing its probable impact on the operations of the Company. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and the Company in particular, is uncertain at this time.

Table of Contents**OVERVIEW**

The Company recorded net income of \$696 thousand for the nine months ended September 30, 2011, down \$210 thousand from net income of \$906 thousand during the nine months ended September 30, 2010. The reduction in income was related to a decline of \$586 thousand in non-interest income, due to a \$1.4 million one-time gain on the sale of its merchant card portfolio recorded during June 2010 and a decrease in gains on the sale of investment securities of \$168 thousand partially offset by an increase in gains on the sale of government guaranteed loans of \$1.2 million. Net interest income declined by \$691 thousand from \$13.2 million during the 2010 period to \$12.5 million during the nine months ended September 30, 2011. These declines in revenue were partially offset by declines of \$1.0 million in the provision for loan losses and \$146 thousand in the provision for income taxes. Non-interest expense increased by \$79 thousand to \$14.9 million for the nine months ended September 30, 2011.

Primarily related to a decrease in loan balances, interest income declined by \$1.7 million; however, this was partially offset by a decline of \$1.0 million in interest expense; \$652 thousand of which was related to a decrease in the rate paid and average balance of time deposits. The increase in non-interest expense was related to a \$655 thousand increase in loss on sale of OREO mostly offset by reductions in other components of non-interest expense the largest of which was a \$311 thousand decline in salary and benefit expense. Pre-tax earnings decreased by \$356 thousand from \$1.3 million during the nine months ended September 30, 2010 to \$923 thousand during the current nine month period. The provision for income taxes decreased from \$373 thousand during the 2010 period to \$227 thousand during the current nine month period.

Net income allocable to common shareholders decreased from \$393 thousand or \$0.08 per share during the nine months ended September 30, 2010 to \$183 thousand or \$0.04 per share during the current nine month period. Income allocable to common shareholders is calculated by subtracting dividends payable and discount amortized on preferred stock from net income.

Total assets at September 30, 2011 were \$473 million, a decrease of \$11.6 million from \$485 million at December 31, 2010. This decrease was mostly related to a net decline in investment securities of \$11.3 million resulting from investment security sales of \$27.4 million partially offset by new purchases and a decrease in loan balances of \$17.8 million. Cash and due from banks increased by \$19.2 million, from \$64.6 million at December 31, 2010 to \$83.8 million at September 30, 2011 and all other assets declined by \$1.7 million.

Deposits decreased by \$15.0 million from \$425 million at December 31, 2010 to \$410 million at September 30, 2011. The decline in deposits was related to maturities from a higher rate promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. Core deposit growth was strong with increases in non-interest bearing deposits of \$18.5 million. Other liabilities increased by \$1.8 million related to a new product which uses repurchase agreements as an alternative to interest-bearing deposits for our larger business customers. The balance in this product at September 30, 2011 was \$7.1 million, but this was partially offset by the derecognition of a \$4.3 million secured borrowing that was outstanding at December 31, 2010 which represented SBA loans sold but subject to a 90 day premium recourse provision. Under ASC Topic 860, Accounting for Transfers of Financial Assets, we were required to maintain this liability and the related loans on balance sheet until the premium recourse period had passed. Once the 90 days had passed and no premium recourse remains we remove the sold loans from assets and derecognize the secured borrowing. During 2011, the SBA modified its requirement related to the recourse provisions on the sale of SBA loans and, as a result, no longer requires the 90 day premium recourse requirement. Therefore; no secured borrowings were outstanding at September 30, 2011.

The annualized return on average assets was 0.20% for the nine months ended September 30, 2011 down from 0.24% for the nine months ended September 30, 2010. The annualized return on average common equity was 0.89% for the nine months ended September 30, 2011 down from 1.9% for the nine months ended September 30, 2010.

Table of Contents**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

Net interest income before provision for loan losses. Net interest income, on a nontax-equivalent basis, for the nine months ended September 30, 2011 was \$12.5 million, a decline of \$691 thousand from the \$13.2 million earned during the same period in 2010. The largest component of the decrease in net interest income was the impact on interest income from a decline in the average balance of loans. Other changes, resulting in a decrease in net interest income, included a decline in yield on the Company's loan and investment portfolios and a decrease in the average balance of investments. These items were partially offset by a decline in interest expense due to a decline in the average balance of time deposits and long term borrowings and a decline in the rate paid on time, NOW and money market deposits. Net interest margin for the nine months ended September 30, 2011 decreased 23 basis points, or 5%, to 4.06%, down from 4.29% for the same period in 2010.

Interest income decreased by \$1.7 million or 11%, to \$14.0 million for the nine months ended September 30, 2011 primarily as a result of a decline in the average balance and yield on loans. Interest and fees on loans decreased \$1.3 million to \$13.2 million for the nine months ended September 30, 2011 as compared to \$14.3 million during the first nine months of 2010. The Company's average loan balances were \$305 million for the nine months ended September 30, 2011, down \$20.5 million, or 6%, from \$326 million for the same period in 2010. The decline in loan balances includes net charge-offs which totaled \$4.7 million from September 1, 2010 to September 30, 2011 as well as \$5.4 million in loans transferred to OREO. The average rate earned on the Company's loan balances decreased by 16 basis points to 5.70% during the first nine months of 2011 compared to 5.86% during the first nine months of 2010. The decrease in loan yield reflects an increase in nonperforming loan balances which averaged \$21.6 million during the nine months ended September 30, 2011 and \$16.7 million during the same period in 2010. Interest income on investment securities decreased by \$513 thousand related to a decrease in average balance of \$11.4 million, from \$71.5 million for the nine months ended September 30, 2010 to \$60.1 million during the current period and a decline in yield of 63 basis points. The decline in yield is primarily related to the replacement of matured and sold investment securities with new investments with market yields below those which they replaced. Interest income on other interest-earning assets, which totaled \$91 thousand in 2011 and \$27 thousand in 2010, relates to interest on cash balances held at the Federal Reserve.

Interest expense on deposits decreased by \$905 thousand, or 43%, to \$1.2 million for the nine months ended September 30, 2011, down from \$2.1 million for the same period in 2010. This decrease primarily relates to decreases in the average balance and rate paid on time deposits and a decline in the rate paid on NOW and money market accounts.

Interest on time deposits declined by \$652 thousand. Average time deposits declined by \$24.3 million from \$126.3 million during the first nine months of 2010 to \$102.0 million during the nine months ended September 30, 2011. The decrease in time deposits is mostly related to a promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. These promotional time deposits have now fully matured. The average rate paid on these promotional deposits during the nine months ended September 30, 2011 was 2%. The average rate paid on time deposits decreased from 1.64% during the first nine months of 2010 to 1.17% during the current nine month period. This decrease primarily relates to a decline in market rates in the Company's service area and the maturity of the higher rate promotional deposits.

Interest expense on NOW accounts declined by \$179 thousand. Rates paid on NOW accounts declined by 22 basis points from 0.43% during the first nine months of 2010 to 0.21% during the same period in 2011, as we significantly lowered the rate paid on local public agencies NOW accounts. Although we lost some deposits by lowering this rate; we are focused on the profitability of the public sweep accounts rather than growing public sweep balances.

Interest expense on money market accounts decreased by \$88 thousand related to a decrease in rate paid on these accounts of 27 basis points from 0.57% during the nine months ended September 30, 2010 to 0.30% during the current nine month period. This was primarily related to a significant drop in the rates paid on our money market sweep product.

Interest on long term borrowings decreased by \$130 thousand as there were no outstanding long term FHLB borrowings during 2011.

During the second quarter of 2010, the Company, at the request of the Federal Reserve Bank of San Francisco (FRB), deferred regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities. However, we continue to accrue interest for this obligation. See Capital Resources . Interest accrued on trust preferred securities was \$228 thousand during the nine months ended September 30, 2011 compared to interest expense on these securities of \$235 thousand during the same period in 2010.

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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 30, 2011			For the Nine Months Ended September 30, 2010		
	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate
Interest-earning assets:						
Loans (1) (2)	\$ 305,048	\$ 13,007	5.70%	\$ 325,558	\$ 14,266	5.86%
Investment securities (1)	60,109	929	2.07%	71,470	1,442	2.70%
Interest-bearing deposits	48,324	91	0.25%	15,521	27	0.23%
Total interest-earning assets	413,481	14,027	4.54%	412,549	15,735	5.10%
Cash and due from banks	13,008			41,538		
Other assets	42,473			49,389		
Total assets	\$ 468,962			\$ 503,476		
Interest-bearing liabilities:						
NOW deposits	\$ 95,724	148	0.21%	\$ 102,348	327	0.43%
Money market deposits	40,577	91	0.30%	42,239	179	0.57%
Savings deposits	57,922	77	0.18%	50,499	63	0.17%
Time deposits	101,963	893	1.17%	126,302	1,545	1.64%
Total deposits	296,186	1,209	0.55%	321,388	2,114	0.88%
Short-term borrowings			0.00%	1,319	5	0.51%
Long-term borrowings			0.00%	13,333	130	1.30%
Other interest-bearing liabilities	1,588	33	2.78%	123	3	3.26%
Junior subordinated debentures	10,310	228	2.96%	10,310	235	3.05%
Total interest-bearing liabilities	308,084	1,470	0.64%	346,473	2,487	0.96%

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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:

	2011 over 2010 change in net interest income for the nine months ended September 30 (in thousands)			
	Volume (1)	Rate (2)	Mix (3)	Total
Interest-earning assets:				
Loans	\$ (899)	\$ (384)	\$ 24	\$ (1,259)
Investment securities	(229)	(337)	53	(513)
Other	57	2	5	64
Total interest income	(1,071)	(719)	82	(1,708)
Interest-bearing liabilities:				
NOW deposits	(21)	(169)	11	(179)
Money market deposits	(7)	(84)	3	(88)
Savings deposits	9	4	1	14
Time deposits	(298)	(439)	85	(652)
Short-term borrowings	(5)			(5)
Long-term borrowings	(130)	(130)	130	(130)
Other interest-bearing liabilities	36	(1)	(5)	30
Junior subordinated debentures		(7)		(7)
Total interest expense	(416)	(831)	230	(1,017)
Net interest income	\$ (655)	\$ 112	\$ (148)	\$ (691)

(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. During the nine months ended September 30, 2011 we recorded a provision for loan losses of \$2.7 million down \$1.0 million from the \$3.7 million provision recorded during the first nine months of 2010. See *Analysis of Asset Quality and Allowance for Loan Losses* for further discussion of loan quality trends and the provision for loan losses.

The allowance for loan losses is maintained at a level that management believes will be appropriate 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.

Based on information currently available, management believes that the allowance for loan losses is appropriate to absorb potential risks 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.

Non-interest income. During the nine months ended September 30, 2011 non-interest income decreased by \$586 thousand to \$6.0 million, from \$6.5 million during the nine months ended September 30, 2010. This decrease was related to the sale of our merchant processing portfolio in 2010. During June 2010 we entered into an alliance with a world-wide merchant processing leader. In conjunction with this alliance we sold our merchant processing business, recording a one-time gain of \$1.4 million. Related to this sale we experienced a decrease in merchant processing income of \$135 thousand during the comparison periods. Service charges on deposit accounts declined by \$165 thousand primarily related to a decline in overdraft fees as new regulations placed additional restrictions on the Bank in charging overdraft fees on ATM and Point of Sale transactions. During the nine months ended September 30, 2011 we sold investment securities classified as available-for-sale with an amortized cost of \$26.7 million recognizing a \$612 thousand gain on sale. During the 2010 period we sold investment securities classified as available-for sale with an amortized cost of \$21.2 million and recorded a \$780 thousand gain on sale.

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Partially offsetting these declines in income was a \$1.2 million increase in gain on sale of government guaranteed loans. The production and sale of government guaranteed loans has become an important component of the Company's core business. During 2011 we continued to grow our government guaranteed loan production as evidenced by an increase in loans originated for sale from \$12.2 million during the first nine months of 2010 to \$14.9 million during the current nine month period.

The following table describes the components of non-interest income for the nine-month periods ending September 30, 2011 and 2010, dollars in thousands:

	For the Nine Months		Dollar	Percentage
	Ended September 30,			
	2011	2010	Change	Change
Service charges on deposit accounts	\$ 2,582	\$ 2,747	\$ (165)	-6.0%
Gain on sale of loans	1,795	600	1,195	199.2%
Gain on sale of securities	612	780	(168)	-21.5%
Earnings on life insurance policies	333	334	(1)	-0.3%
Loan service fees	159	133	26	19.5%
Customer service fees	107	100	7	7.0%
Safe deposit box and night depository income	49	48	1	2.1%
Merchant processing income	7	142	(135)	-95.1%
Sale of merchant processing portfolio		1,435	(1,435)	-100.0%
Other	310	221	89	40.3%
Total non-interest income	\$ 5,954	\$ 6,540	\$ (586)	-9.0%

Non-interest expenses. While we have achieved savings in many categories of non-interest expense these were offset in the current period by an increase of \$672 thousand in loss on sale of other real estate owned (OREO) and other vehicles owned (OVO). Non-interest expense increased by \$79 thousand from \$14.8 million during the nine months ended September 30, 2010 to \$14.9 million during the current nine month period.

Salaries and employee benefits decreased by \$311 thousand primarily related to declines in salary expense. Salary expense, excluding commissions, declined by \$618 thousand related to a reduction in staffing, during the second quarter of 2010, which affected most function areas with the exception of government guaranteed lending and problem assets. Currently we employ seven persons in our problem asset department and nine persons in government guaranteed lending. We have increased staffing in our government guaranteed lending department in order to service our increasing balances of government guaranteed loans and to provide for future growth in this area. Commission expense, which relates to government guaranteed lending personnel and is included in salary expense, increased by \$392 thousand resulting from the increase in government guaranteed loan sales.

OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Loss on sale of OREO and OVO totaled \$608 thousand related to the sale of one property. During September, 2011 the Bank sold its largest OREO holding which represented \$4.3 million, or 48% of the total balance in OREO at January 1, 2011. The Bank incurred a \$617 thousand loss the sale of this property and a total loss on sale of OREO and OVO of \$608 thousand; however, management believes the \$617 thousand loss was prudent given the significant affect this transaction had in decreasing nonperforming assets.

OREO expense declined by \$167 thousand from \$534 thousand during the nine months ended September 30, 2010 to \$367 thousand during the same period in 2011. These savings were primarily related to property taxes on OREO properties as we received a refund of prior year taxes in 2011 as some of our OREO properties were reassessed during the second half of 2010 resulting in lower tax expense in 2011.

Other non-interest expense declined by \$214 thousand related to a \$226 thousand prepayment penalty incurred upon the prepayment of our long-term Federal Home Loan Bank borrowings during July, 2010.

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The following table describes the components of non-interest expense for the nine-month periods ending September 30, 2011 and 2010, dollars in thousands:

	For the Nine Months Ended September 30,		Dollar Change	Percentage Change
	2011	2010		
Salaries and employee benefits	\$ 7,058	\$ 7,369	\$ (311)	-4.2%
Occupancy and equipment	2,337	2,327	10	0.4%
Outside Service fees	967	896	71	7.9%
FDIC insurance and assessments	851	800	51	6.4%
Loss (gain) on sale of OREO and OVO	608	(64)	672	1,050.0%
Professional fees	602	509	93	18.3%
OREO Expense	367	534	(167)	-31.3%
Provision for OREO losses	337	353	(16)	-4.5%
Telephone and data communication	250	257	(7)	-2.7%
Loan and collection expenses	223	225	(2)	-0.9%
Business development	193	197	(4)	-2.0%
Director compensation	172	174	(2)	-1.1%
Armored car and courier	168	180	(12)	-6.7%
Advertising and shareholder relations	166	180	(14)	-7.8%
Postage	148	162	(14)	-8.6%
Deposit premium amortization	130	130		%
Stationery and supplies	104	103	1	1.0%
Insurance Expense	96	152	(56)	-36.8%
Other	111	325	(214)	-65.8%
Total non-interest expense	\$ 14,888	\$ 14,809	\$ 79	0.5%

Provision for income taxes. The Company recorded an income tax provision of \$227 thousand, or 24.6% of pre-tax income for the nine months ended September 30, 2011. This compares to an income tax provision of \$373 thousand, or 29.2% of pre-tax loss for the nine months ended September 30, 2010. The percentages for 2011 and 2010 differ from the statutory rate as tax exempt income such as earnings on Bank owned life insurance and municipal loan and investment income decrease the tax provision and increase the tax benefit.

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 determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, which are subject to uncertainty and estimates that may change given economic conditions and other factors. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is more likely than not that all or a portion of the deferred tax asset will not be realized. More likely than not is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Based upon our analysis of available evidence, we have determined that it is more likely than not that all of our deferred income tax assets as of September 30, 2011 and December 31, 2010 will be fully realized and therefore no valuation allowance was recorded. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

Table of Contents**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

Net Income. The Company recorded net income of \$371 thousand for the three months ended September 30, 2011 an increase of \$175 thousand from net income of \$196 thousand for the three months ended September 30, 2010. This increase in earnings mostly relates to a decrease of \$900 thousand in the provision for loan losses. In addition, non-interest income increased by \$103 thousand. Partially offsetting these items was a decrease in net-interest income of \$276 thousand and increases in non-interest expense of \$446 thousand and the provision for income taxes of \$106 thousand.

Net income allocable to common shareholders increased from \$25 thousand or \$0.01 per share during the three months ended September 30, 2010 to \$200 thousand or \$0.04 per share during the current three month period. Income allocable to common shareholders is calculated by subtracting dividends payable and discount amortized on preferred stock from net income.

Net interest income before provision for loan losses. Net interest income, on a nontax-equivalent basis, was \$4.2 million for the three months ended September 30, 2011, a decrease of \$276 thousand, or 6%, from \$4.5 million for the same period in 2010. The decline in net interest income was primarily related to a decrease in the average balance of and yield on loans and investment securities. The effect of these items on net interest income was partially offset by a decline in the rates paid and lower interest expense due to a decline in the average balance of time deposits. Net interest margin for the three months ended September 30, 2011 decreased 34 basis points to 4.07%, down from 4.41% for the same period in 2010.

Interest income decreased \$582 thousand or 11%, to \$4.6 million for the three months ended September 30, 2011. Interest and fees on loans decreased \$442 thousand to \$4.3 million for the three months ended September 30, 2011 as compared to \$4.8 million during the third quarter of 2010. The Company's average loan balances were \$301 million during the three months ended September 30, 2011, down \$21.6 million, or 7%, from \$323 million for the same period in 2010. The decline in loan balances includes net charge-offs which totaled \$4.7 million from October 1, 2010 to September 30, 2011 as well as \$5.4 million in loans transferred to OREO. Primarily related to the effect on interest income of nonaccrual loans, including the reversal of accrued interest on loans placed on nonaccrual during the quarter, the average rate earned on the Company's loan balances decreased from 5.85% during the third quarter of 2010 to 5.69% during the three months ended September 30, 2011. Interest income on investment securities decreased by \$171 thousand related to a decline in yield of 50 basis points from 2.41% during the 2010 quarter to 1.91% during the current quarter and less interest due to a decline in average balance from \$65 million during the third quarter of 2010 to \$46.3 million during the current quarter. The decline in yield is primarily related to the replacement of matured and sold investment securities with new investments with market yields below those which they replaced. We have been reluctant to add significantly to the balance of investment securities in recent months given historically low yields; however, we do expect an increase in investment securities during the balance of 2011. Interest income on other interest-earning assets, which totaled \$39 thousand in 2011 and \$8 thousand in 2010, relates to interest on balances held at the Federal Reserve.

Interest expense on deposits decreased by \$308 thousand, or 50%, to \$307 thousand for the three months ended September 30, 2011, down from \$615 thousand for the same period in 2010. This decrease primarily relates to decreases in the average balance and rate paid on time deposits.

Interest on time deposits declined by \$282 thousand related both to a decrease in average balance and a decline in rate paid. Average time deposits declined by \$35.1 million from \$124.1 million during the third quarter of 2010 to \$89.0 million during the three months ended September 30, 2011. The decrease in time deposits is mostly related to a promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. These promotional time deposits began maturing at the end of 2010 and continued to mature until September, 2011. The average rate paid on time deposits decreased from 1.56% during the three months ended September 30, 2010 to 0.92% during the current quarter. This decrease relates to a decline in market rates in the Company's service area and the maturity of the higher rate promotional deposits.

Changes in interest expense on other deposits products and other interest-bearing liabilities during the comparison quarters were not significant.

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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 September 30, 2011			For the Three Months Ended September 30, 2010		
	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate	Average Balance (in thousands)	Interest (in thousands)	Yield/ Rate
Interest-earning assets:						
Loans (1) (2)	\$ 301,388	\$ 4,322	5.69%	\$ 322,950	\$ 4,764	5.85%
Investment securities (1)	46,272	223	1.91%	64,809	394	2.41%
Other	60,518	39	0.26%	13,816	8	0.23%
Total interest-earning assets	408,178	4,584	4.46%	401,575	5,166	5.10%
Cash and due from banks	13,258			42,662		
Other assets	42,069			48,084		
Total assets	\$ 463,505			\$ 492,321		
Interest-bearing liabilities:						
NOW deposits	\$ 91,823	45	0.19%	\$ 99,187	60	0.24%
Money market deposits	40,512	28	0.27%	40,847	45	0.44%
Savings deposits	60,862	28	0.18%	51,418	22	0.17%
Time deposits	88,981	206	0.92%	124,052	488	1.56%
Total deposits	282,178	307	0.43%	315,504	615	0.77%
Long-term borrowings			%	217	1	1.83%
Other interest-bearing liabilities	3,329	13	1.55%	115	1	3.45%
Junior subordinated debentures	10,310	76	2.92%	10,310	85	3.27%
Total interest-bearing liabilities	295,817	396	0.53%	326,146	702	0.85%

Non-interest bearing deposits	122,237	116,396
Other liabilities	5,964	10,334
Shareholders equity	39,487	39,445
Total liabilities & equity	\$ 463,505	\$ 492,321

Cost of funding interest-earning assets (3)		0.39%		0.69%
Net interest income and margin (4)	\$ 4,188	4.07%	\$ 4,464	4.41%

- (1) Not computed on a tax-equivalent basis.
- (2) Net loan fees/(costs) included in loan interest income for the three-month periods ended September 30, 2011 and 2010 were \$1 thousand and \$(7) 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.

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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:

	2011 over 2010 change in net interest income for the three months ended September 30 (in thousands)			
	Volume (1)	Rate (2)	Mix (3)	Total
Interest-earning assets:				
Loans	\$ (318)	\$ (133)	\$ 9	\$ (442)
Investment securities	(112)	(82)	23	(171)
Other	27	1	3	31
Total interest income	(403)	(214)	35	(582)
Interest-bearing liabilities:				
NOW deposits	(4)	(11)		(15)
Money market deposits		(17)		(17)
Savings deposits	4	2		6
Time deposits	(138)	(201)	57	(282)
Short-term borrowings				
Long-term borrowings	(1)	(1)	1	(1)
Other interest-bearing liabilities	28	(1)	(15)	12
Junior subordinated debentures		(9)		(9)
Total interest expense	(111)	(238)	43	(306)
Net interest income	\$ (292)	\$ 24	\$ (8)	\$ (276)

(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. The Company recorded a \$400 thousand provision for loan losses for the three months ended September 30, 2011 compared to the \$1.3 million provision for loan losses for the three months ended September 30, 2010.

The allowance for loan losses is maintained at a level that management believes will be appropriate 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.

Based on information currently available, management believes that the allowance for loan losses is appropriate to absorb potential risks 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 Analysis of Asset Quality and Allowance for Loan Losses for further discussion of loan quality trends and the provision for loan losses.

Non-interest income. During the three months ended September 30, 2011, total non-interest income increased by \$103 thousand from the same period in 2010. This increase was primarily related to government guaranteed loan sales during the quarter. Gains on sale of loans increased by \$297 thousand from \$360 thousand during the three months ended September 30, 2010 to \$657 thousand during the current quarter. While our government guaranteed lending activity remains strong, we expect fourth quarter 2011 gains on sale to decrease from third quarter levels which were particularly high. Other increases in non-interest income totaled \$72 thousand. These increases in non-interest income were partially offset by declines in other non-interest income categories the largest of which was a decline in gains on sale of investment securities from \$200 thousand in third quarter of 2010 to zero during the current quarter.

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The following table describes the components of non-interest income for the three-month periods ending September 30, 2011 and 2010, dollars in thousands:

	For the Three Months Ended September 30,		Dollar Change	Percentage Change
	2011	2010		
Service charges on deposit accounts	\$ 881	\$ 917	\$ (36)	-3.9%
Gain on sale of loans	657	360	297	82.5%
Earnings on life insurance policies	108	112	(4)	-3.6%
Loan service fees	52	55	(3)	-5.5%
Customer service fees	38	35	3	8.6%
Safe deposit box and night depository income	16	16		%
Merchant processing income	5	28	(23)	-82.1%
Gain on sale of securities		200	(200)	-100.0%
Other	134	65	69	106.2%
Total non-interest income	\$ 1,891	\$ 1,788	\$ 103	5.8%

Non-interest expenses. Non-interest expense totaled \$5.1 million during the three months ended September 30, 2011 an increase of \$446 thousand from \$4.6 million during the 2010 quarter. The largest component of this increase was a \$473 addition to our other real estate valuation allowance related mostly to one property which based on a recent appraisal declined in value by \$452 thousand. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for subsequent losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from permanent impairment are recorded in other income or expenses as incurred.

Salaries and employee benefits increased by \$47 thousand primarily related to an increase in commission expense related to increased sales of government guaranteed loans. Salary expense, excluding commissions, declined by \$18 thousand. Commission expense, which relates to government guaranteed lending personnel and is included in salary expense, increased by \$86 thousand resulting from the increase in government guaranteed loan sales.

Professional fees increased by \$107 thousand which primarily relates to an increase in legal costs related to loan collection activities and an increase in consulting costs including an independent study of the management and personnel structure of the Bank as required under the Bank's Agreement with the FDIC and DFI.

Other non-interest expense declined by \$181 thousand related to a \$226 thousand prepayment penalty incurred upon the prepayment of our long-term Federal Home Loan Bank borrowings during July, 2010.

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The following table describes the components of non-interest expense for the three-month periods ending September 30, 2011 and 2010, dollars in thousands:

	For the Three Months Ended September 30,		Dollar Change	Percentage Change
	2011	2010		
Salaries and employee benefits	\$ 2,304	\$ 2,257	\$ 47	2.1%
Occupancy and equipment	768	792	(24)	-3.0%
Provision for OREO losses	473	7	466	6,657.1%
Outside Service fees	324	294	30	10.2%
Professional fees	250	143	107	74.8%
FDIC insurance and assessments	236	294	(58)	-19.7%
OREO Expense	152	129	23	17.8%
Loan and collection expenses	104	78	26	33.3%
Telephone and data communication	80	81	(1)	-1.2%
Business development	62	65	(3)	-4.6%
Advertising and shareholder relations	62	63	(1)	-1.6%
Postage	61	53	8	15.1%
Armored car and courier	60	63	(3)	-4.8%
Director compensation	57	60	(3)	-5.0%
Insurance Expense	50	64	(14)	-21.9%
Deposit premium amortization	43	43		%
Stationery and supplies	34	39	(5)	-12.8%
Gain on sale of OREO and OVO	(65)	(97)	32	33.0%
Other	38	219	(181)	-82.6%
Total non-interest expense	\$ 5,093	\$ 4,647	\$ 446	9.6%

Provision for income taxes. The Company recorded income tax expense of \$209 thousand, or 36.0% of pre-tax income for the three months ended September 30, 2011. This compares to income tax expense of \$109 thousand, or 35.7% of pre-tax loss for the three months ended September 30, 2010. The percentages for 2011 and 2010 differ from the statutory rate as tax exempt income such as earnings on Bank owned life insurance and municipal loan and investment income decrease taxable income.

FINANCIAL CONDITION

Loan Portfolio. 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 commercial businesses. These commercial loans offer diversification as to industries and types of businesses, thus limiting material exposure in any industry concentrations. 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.

The Company's largest lending categories are commercial real estate loans, residential real estate loans, and agricultural loans. These categories accounted for approximately 38.3%, 14.6% and 13.2%, respectively of the Company's total loan portfolio at September 30, 2011, and approximately 37.9%, 13.8% and 12.2%, respectively of the Company's total loan portfolio at December 31, 2010. Construction and land development loans continue to decline and represented 7.7% and 9.9% of the loan portfolio as of September 30, 2011 and December 31, 2010, respectively. The construction and land development portfolio component has been identified by Management as a higher-risk loan category. The quality of the construction and land development category is highly dependent on property values both in terms of the likelihood of repayment once the property is transacted by the current owner as

well as the level of collateral the Company has securing the loan in the event of default. Loans in this category are characterized by the speculative nature of commercial and residential development properties and can include property in various stages of development from raw land to finished lots. The decline in these loans as a percentage of the Company's loan portfolio reflects management's continued efforts, which began in 2009, to reduce its exposure to construction and land development loans due to the severe valuation decrease in the real estate market.

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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 82% and 80% of the total loan portfolio at September 30, 2011 and December 31, 2010, respectively. Moreover, the business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, 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, 2011 and December 31, 2010, approximately 73% and 66%, 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 \$39 million at September 30, 2011 and \$38 million at December 31, 2010.

Analysis of Asset Quality and Allowance for Loan Losses. The Company attempts to minimize credit risk through its underwriting and credit review policies. The Company's credit review process includes internally prepared credit reviews as well as contracting with an outside firm to conduct periodic credit reviews. The Company's management and lending officers evaluate the loss exposure of classified and impaired loans on a quarterly basis, or more frequently as loan conditions change. The Management Asset Resolution Committee (MARC) reviews the asset quality of criticized loans on a monthly basis and reports the findings to the full Board of Directors. The Board's Loan Committee reviews the asset quality of new loans on a monthly basis and reports the findings to the full Board of Directors. In management's opinion, this loan review system helps facilitate the early identification of potential criticized loans.

The Company has implemented MARC to develop an action plan to significantly reduce nonperforming loans. It consists of members of executive management, credit administration management and the Board of Directors, and the activities are governed by a formal written charter. The MARC meets at least monthly and reports to the Board of Directors.

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.

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.

The allowance for loan losses is established through charges to earnings in the form of the provision for loan losses. Loan losses are charged to and recoveries are credited to the allowance for loan losses. The allowance for loan losses is maintained at a level deemed appropriate by management to provide for known and inherent risks in loans. The adequacy of the allowance for loan losses is based upon management's continuing assessment of various factors affecting the collectibility of loans; including current economic conditions, maturity of the portfolio, size of the portfolio, industry concentrations, borrower credit history, collateral, the existing allowance for loan losses, independent credit reviews, current charges and recoveries to the allowance for loan losses and the overall quality of the portfolio as determined by management, regulatory agencies, and independent credit review consultants retained by the Company. There is no precise method of predicting specific losses or amounts which may ultimately be charged off on particular segments of the loan portfolio. The collectibility of a loan is subjective to some degree, but

must relate to the borrower's financial condition, cash flow, quality of the borrower's management expertise, collateral and guarantees, and state of the local economy.

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Formula allocations are calculated by applying loss factors to outstanding loans with similar characteristics. Loss factors are based on the Company's historical loss experience as adjusted for changes in the business cycle and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Effective for the third quarter of 2010, the Company modified its method of estimating the allowance for loan losses for non-impaired loans. This modification incorporated historical loss experience based on a rolling eight quarters ending with the most recently completed calendar quarter to identified pools of loans. This modification did not have a material affect on the Company's allowance for loan losses or provision for loan losses.

The discretionary allocation is based upon management's evaluation of various loan segment conditions that are not directly measured in the determination of the formula and specific allowances. The conditions may include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality trends, collateral values, loan volumes and concentrations, and other business conditions.

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, in thousands:

	For the Nine Months Ended September 30, (in thousands)	
	2011	2010
Balance at January 1,	\$ 7,324	\$ 9,568
Charge-offs:		
Commercial and agricultural	(479)	(812)
Real estate mortgage	(690)	(2,706)
Real estate construction	(2,484)	(3,360)
Consumer	(205)	(330)
Total charge-offs	(3,858)	(7,208)
Recoveries:		
Commercial and agricultural	189	16
Real estate mortgage	16	395
Real estate construction	5	65
Consumer	84	86
Total recoveries	294	562
Net charge-offs	(3,564)	(6,646)
Provision for loan losses	2,700	3,700
Balance at September 30,	\$ 6,460	\$ 6,622

Annualized net charge-offs during the nine-month period to average loans	1.56%	2.73%
Allowance for loan losses to total loans	2.19%	2.07%

We currently anticipate that net charge-offs could range from approximately \$4.0 million to \$5.0 million in 2011, the largest part of which are anticipated to be related to real estate loans. For other categories of loans we expect charge-offs to be similar to 2010 activity. However, given the lack of stability in the real estate market and the recent volatility in charge-offs, there can be no assurance that charge offs of loans in future periods will not increase or decrease from this estimate.

The allowance for loan losses totaled \$6.5 million at September 30, 2011 and \$7.3 million at December 31, 2010. Specific reserves related to impaired loans declined from \$1.9 million at December 31, 2010 to \$0.8 million at September 30, 2011. At least quarterly the Company evaluates each specific reserve and if it determines that the loss represented by the specific reserve is uncollectable it reverses the specific reserve and takes a partial charge-off in its place. This decrease in specific reserves was mostly offset by an increase in partial charge-offs. General reserves increased by \$207 thousand to \$5.6 million at September 30, 2011. Related a to a decrease in specific reserves, the allowance for loan losses as a percentage of total loans decreased from 2.33% at December 31, 2010 to 2.19% at September 30, 2011; however, the percentage of general reserves to unimpaired loans increased from 1.90% at December 31, 2010 to 2.07% at September 30, 2011.

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The Company places loans 90 days or more past due on nonaccrual status unless the loan is well secured and in the process of collection. A loan is considered to be in the process of collection if, based on a probable specific event, it is expected that the loan will be repaid or brought current. Generally, this collection period would not exceed 90 days. When a loan is placed on nonaccrual status the Company's general policy is to reverse and charge against current income previously accrued but unpaid interest. Interest income on such loans is subsequently recognized only to the extent that cash is received and future collection of principal is deemed by management to be probable. Where the collectibility of the principal or interest on a loan is considered to be doubtful by management, it is placed on nonaccrual status prior to becoming 90 days delinquent.

Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The amount of impaired loans is not directly comparable to the amount of nonperforming loans disclosed later in this section. The primary difference between impaired loans and nonperforming loans is that impaired loan recognition considers not only loans 90 days or more past due, restructured loans and nonaccrual loans but also may include identified problem loans other than delinquent loans where it is considered probable that we will not collect all amounts due to us (including both principal and interest) in accordance with the contractual terms of the loan agreement.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Nonperforming loans at September 30, 2011 were \$15.5 million, a decrease of \$9.8 million from the \$25.3 million balance at December 31, 2010. The decline of \$9.8 million includes \$5.2 million in loans transferred to OREO, a \$4.4 million loan that was returned to performing status and charge-offs and principal repayments on nonperforming loans partially offset by \$6.4 million in additional loans placed on nonperforming status during the period. Specific reserves on nonaccrual loans totaled \$623 thousand at September 30, 2011 and \$1.8 million at December 31, 2010, respectively. Performing loans past due thirty to eighty-nine days increased from \$2.9 million at December 31, 2010 to \$4.3 million at September 30, 2011.

A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Total substandard loans decreased by \$8.6 million from \$38.6 million at December 31, 2010 to \$30.0 million at September 30, 2011. Loans classified as watch increased slightly from \$14.2 million at December 31, 2010 to \$14.5 million at September 30, 2011. At September 30, 2011, \$16.0 million of performing loans were classified as substandard. Further deterioration in the credit quality of individual performing substandard loans or other adverse circumstances could result in the need to place these loans on nonperforming status.

At September 30, 2011 and December 31, 2010, the Company's recorded investment in impaired loans totaled \$23.5 million and \$28.8 million, respectively. The specific allowance for loan losses related to impaired loans totaled \$0.8 million and \$1.9 million at September 30, 2011 and December 31, 2010, respectively. Additionally, \$1.3 million has been charged off against the impaired loans at September 30, 2011 and \$2.8 million at December 31, 2010.

It is the policy of management to make additions to the allowance for loan losses so that it remains appropriate to absorb the inherent risk of loss in the portfolio. Management believes that the allowance at September 30, 2011 is appropriate. 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.

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OREO represents real property taken by the Bank either through foreclosure or through a deed in lieu thereof from the borrower. Repossessed assets include vehicles and other commercial assets acquired under agreements with delinquent borrowers. Repossessed assets and OREO are carried at fair market value, less selling costs. OREO holdings represented forty-one properties totaling \$9.0 million at September 30, 2011 and thirty-one properties totaling \$8.9 million at December 31, 2010. During June, 2011 the Bank sold its largest OREO holding which represented \$4.3 million, or 48% of the total balance in OREO at January 1, 2011. The Bank incurred a \$617 thousand loss on sale; however, management believes the loss was prudent given the significant affect this transaction had in decreasing nonperforming assets. Nonperforming assets as a percentage of total assets were 5.19% at September 30, 2011 and 7.15% at December 31, 2010.

The following table provides a summary of the change in the OREO balance for the nine months ended September 30, 2011 and 2010:

	Nine Months Ended September	
	30,	
	2011	2010
	(in thousands)	
Beginning Balance	\$ 8,867	\$ 11,204
Additions	5,239	1,216
Dispositions	(4,812)	(3,012)
Change in OREO valuation	(337)	(353)
Ending Balance	\$ 8,957	\$ 9,055

Investment Portfolio and Federal Funds Sold. Total investment securities decreased by \$11.3 million from \$63.0 million at December 31, 2010 to \$51.7 million as of September 30, 2011. While investment securities decreased from December 31, 2010 levels, we anticipate adding to investment securities during the next three months. The investment portfolio at September 30, 2011 was invested entirely in U.S. Government agencies, at December 31, 2010 the investment portfolio consisted of 2% U.S. Treasuries and 98% U.S. Government agencies. There were no Federal funds sold at September 30, 2011 or December 31, 2010; however, the Bank maintained interest earning balances at the Federal Reserve Bank (FRB) totaling \$68.7 million at September 30, 2011 and \$52.3 million at December 31, 2010, respectively. These balances currently earn 25 basis points.

The Company classifies its investment securities as available-for-sale or held-to-maturity. Currently all securities are classified as available-for-sale. Securities classified as available-for-sale may be sold to implement the Company's asset/liability management strategies and in response to changes in interest rates, prepayment rates and similar factors.

Deposits. Total deposits were \$409.9 million as of September 30, 2011, a decrease of \$15.0 million, or 4%, from the December 31, 2010 balance of \$424.9 million. The decline in deposits was related to maturities from a higher rate promotional time deposit product we began offering in June, 2009 and continued to offer until April 30, 2010. Core deposit growth was strong with increases in non-interest bearing deposits of \$18.5 million.

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. The deposit mix changed slightly from December 31, 2010 as time deposits decreased and we had an increase in non-interest bearing demand deposits and savings accounts. Non-interest bearing demand deposits were 32% of total deposits at September 30, 2011 and 26% of total deposits at December 31, 2010. Interest bearing transaction accounts were 23% of total deposits at September 30, 2011 and 24% of total deposits at December 31, 2010. Money market and savings deposits totaled 24% of total deposits at September 30, 2011 and 22% at December 31, 2010. Time deposits were 21% of total deposits at September 30, 2011 and 28% of total deposits at December 31, 2010.

Deposits represent the Bank's primary source of funds. Deposits are primarily core deposits in that they are demand, savings and time deposits generated from local businesses and individuals. These sources are considered to be relatively stable, long-term relationships thereby enhancing steady growth of the deposit base without major

fluctuations in overall deposit balances. The Company experiences, to a small degree, some seasonality with the slower growth period between November through April, and the higher growth period from May through October. In order to assist in meeting any funding demands, the Company maintains secured borrowing arrangements with the Federal Home Loan Bank and the Federal Reserve Bank of San Francisco. Included in time deposits at September 30, 2011 and December 31, 2010 were \$1.8 million and \$2.0 million, respectively in CDARS reciprocal time deposits which, under regulatory guidelines, are classified as brokered deposits.

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Borrowing Arrangements. Exclusive of our junior subordinated deferrable interest debentures there were no outstanding borrowings at September 30, 2011 or December 31, 2010.

The average balance in short-term borrowings during the nine months ended September 30, 2011 and 2010 were \$4 thousand and \$1.3 million, respectively. The average rate paid on short-term borrowings during the nine months ended September 30, 2011 and 2010, was 0.15% and 0.51%, respectively. The maximum amount of short-term borrowings outstanding at any month-end during the nine months ended September 30, 2011 and September 30, 2010 was \$0 and \$20 million, respectively.

Repurchase Agreements.

Recently Plumas Bank introduced a new product for its larger business customers which use repurchase agreements as an alternative to interest-bearing deposits. The balance in this product at September 30, 2011 was \$7.1 million. Interest paid on this product is similar to that which can be earned on the bank's premium money market account; however, these are not deposits and are not FDIC insured.

Capital Resources

Shareholders' equity as of September 30, 2011 totaled \$39.5 million up from \$38.0 million as of December 31, 2010. On January 30, 2009, under the Capital Purchase Program, the Company 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. Ten million of the twelve million in proceeds from the sale of the Series A Preferred Stock was injected into Plumas Bank providing additional capital for the bank to support growth in loans and investment securities and strengthen its capital ratios. The remainder provided funds for holding company activities and general corporate purposes.

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. No common cash dividends were paid in 2009 or 2010 and none are anticipated to be paid in 2011.

The Company is subject to various restrictions on the payment of dividends. See Note 2 Regulatory Matters of the Company's Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q.

At the request of the FRB, Plumas Bancorp deferred its regularly scheduled quarterly interest payments on its outstanding junior subordinated debentures relating to its two trust preferred securities and suspended quarterly cash dividend payments on its Series A Preferred Stock. Therefore, Plumas Bancorp is currently in arrears with the dividend payments on the Series A Preferred Stock and interest payments on the junior subordinated debentures as permitted by the related documentation. As of September 30, 2011 the amount of the arrearage on the dividend payments of the Series A Preferred Stock is \$896 thousand representing six quarterly payments and the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities is \$466 thousand also representing six quarterly payments.

Capital Standards.

The Company uses a variety of measures to evaluate its capital adequacy, with risk-based capital ratios calculated separately for the Company and the Bank. Management reviews these capital measurements on a monthly basis and takes appropriate action to ensure that they are within established internal and external guidelines. The FDIC has promulgated risk-based capital guidelines for all state non-member banks such as the Bank. These guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. There are two categories of capital under the guidelines: Tier 1 capital includes common stockholders' equity, and qualifying trust-preferred securities (including notes payable to unconsolidated special purpose entities that issue trust-preferred securities), less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on available-for-sale investment securities carried at fair market value; Tier 2 capital can include qualifying subordinated debt and the allowance for loan losses, subject to certain limitations. The Series A Preferred Stock qualifies as Tier 1 capital for the Company.

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As noted previously, the Company's junior subordinated debentures represent borrowings from its unconsolidated subsidiaries that have issued an aggregate \$10 million in trust-preferred securities. These trust-preferred securities currently qualify for inclusion as Tier 1 capital for regulatory purposes as they do not exceed 25% of total Tier 1 capital, but are classified as long-term debt in accordance with GAAP. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust-preferred securities (and/or related subordinated debentures) in the Tier I capital of bank holding companies.

The following table presents the Company's and the Bank's capital ratios as of September 30, 2011 and December 31, 2010, in thousands:

	September 30, 2011		December 31, 2010	
	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio				
Plumas Bancorp and Subsidiary	\$ 44,540	9.7%	\$ 42,944	8.9%
Minimum regulatory requirement	18,338	4.0%	19,361	4.0%
Plumas Bank	44,424	9.7%	43,262	8.9%
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	22,911	5.0%	24,190	5.0%
Minimum regulatory requirement	18,329	4.0%	19,352	4.0%

Tier 1 Risk-Based Capital Ratio

Plumas Bancorp and Subsidiary	44,540	13.6%	42,994	12.7%
Minimum regulatory requirement	13,076	4.0%	13,570	4.0%
Plumas Bank	44,424	13.6%	43,262	12.8%
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	19,598	6.0%	20,342	6.0%
Minimum regulatory requirement	13,066	4.0%	13,561	4.0%

Total Risk-Based Capital Ratio

Plumas Bancorp and Subsidiary	48,659	14.9%	47,274	13.9%
Minimum regulatory requirement	26,151	8.0%	27,140	8.0%
Plumas Bank	48,540	14.9%	47,539	14.0%
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	32,664	10.0%	33,903	10.0%
Minimum regulatory requirement	26,131	8.0%	27,123	8.0%

Management believes that the Company and the Bank met all their capital adequacy requirements as of September 30, 2011 and December 31, 2010. On March 16, 2011, the Bank entered into a Consent Order (Order) with the FDIC and the DFI. Within 240 days of the date of the Order we are required to increase and maintain the Bank's Tier 1 capital to a level such that its leverage ratio is at least 10% and its total risk-based capital is at least 13%. Currently the Bank has exceeded the Order's total risk-based capital ratio goal of 13% and Management is working to meet the leverage ratio target of 10% by year end through a combination of profit retention and a reduction in higher rate deposits resulting in a corresponding reduction in lower rate interest-earning assets. See Note 2 Regulatory Matters of the Company's Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q for information related to the Order.

The current and projected capital positions of the Company and the Bank and the impact of capital plans and long-term strategies are reviewed regularly by management. The Company policy is to maintain the Bank's ratios above the prescribed well-capitalized leverage, Tier 1 risk-based and total risk-based capital ratios of 5%, 6% and 10%, respectively, at all times.

Table of Contents**Off-Balance Sheet Arrangements**

Loan Commitments. In the normal course of business, there are various commitments outstanding to extend credits that are not reflected in the financial statements. Commitments to extend credit and letters of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Annual review of commercial credit lines, letters of credit and ongoing monitoring of outstanding balances reduces the risk of loss associated with these commitments. As of September 30, 2011, the Company had \$72.5 million in unfunded loan commitments and \$50 thousand in letters of credit. This compares to \$71.6 million in unfunded loan commitments and \$164 thousand in letters of credit at December 31, 2010. Of the \$72.5 million in unfunded loan commitments, \$28.7 million and \$43.8 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at September 30, 2011, \$30.7 million were secured by real estate, of which \$3.6 million was secured by commercial real estate and \$27.1 million was secured by residential real estate in the form of equity lines of credit. The commercial loan commitments not secured by real estate primarily represent business lines of credit, while the consumer loan commitments not secured by real estate primarily represent revolving credit card lines. Since, some of the commitments are expected to expire without being drawn upon; the total commitment amounts do not necessarily represent future cash requirements.

Operating Leases. The Company leases one depository branch, one lending office and one loan administration office and two non branch automated teller machine locations. Total rental expenses under all operating leases, including premises, totaled \$139,000 and a credit of \$4,000, during the nine months ended September 30, 2011 and 2010, respectively. The expiration dates of the leases vary, with the first such lease expiring during 2011 and the last such lease expiring during 2015.

The credit in rental expense during 2010 resulted from the purchase of our Redding branch building on March 31, 2010. Previously we had leased this building. Under the terms of the lease agreement we were provided free rent for a period of time; however, in accordance with applicable accounting standards we recognized monthly rent expense equal to the total payments required under the lease dividend by the term of the lease in months. At the time of the purchase we reversed this accrual recognizing a \$184 thousand reduction in rental expense.

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, in addition to cash and due from banks, the Company maintains an investment portfolio containing U.S. Government agency securities that are classified as available-for-sale. On the liability side, liquidity needs are managed by charging competitive offering rates on deposit products and the use of established lines of credit.

The Company is a member of the FHLB and can borrow up to \$71,958,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling \$121,099,000. The Company is required to hold FHLB stock as a condition of membership. At September 30, 2011, the Company held \$2,043,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the Company can borrow up to \$43,466,000. There were no borrowings outstanding as of September 30, 2011. To borrow the \$71,958,000 in available credit the Company would need to purchase \$1,339,000 in additional FHLB stock. In addition, the Company has the ability to secure advances through the FRB discount window. These advances also must be collateralized.

Customer deposits are the Company's primary source of funds. Total deposits were \$409.9 million as of September 30, 2011, a decrease of \$15.0 million, or 4%, from the December 31, 2010 balance of \$424.9 million. Deposits are held in various forms with varying maturities. 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 cash held at the FRB, 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 borrowings, will provide adequate liquidity for its operations in the foreseeable future.

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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 Interim Chief Executive Officer and Interim 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, 2011 (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 control over financial reporting or in other factors that could significantly affect internal controls that occurred during the Company's fiscal quarter ended September 30, 2011.

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) None.

(b) None.

(c) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Under the terms of the Series A Preferred Stock, Plumas Bancorp is required to pay dividends on a quarterly basis at a rate of 5% per year for the first five years, after which the dividend rate automatically increases to 9%. Dividend payments on the Series A Preferred Stock may be deferred without default, but the dividend is cumulative and, if Plumas Bancorp fails to pay dividends for six quarters, the holder will have the right to appoint representatives to Plumas Bancorp's board of directors. As previously disclosed, Plumas Bancorp has determined to defer regularly scheduled quarterly interest payments on its Series A Preferred Stock. Therefore, Plumas Bancorp is currently in arrears with the dividend payments on the Series A Preferred Stock. As of the date of filing this report, the amount of the arrearage on the dividend payments of the Series A Preferred Stock is \$896 thousand representing six quarterly payments.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

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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 March 16, 2011 included as exhibit 3.2 to the Registrant's Form 10-K for December 31, 2010, 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.
- 10.8 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.

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- 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.

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- 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 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.

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- 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.

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- 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.
- 10.56 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.
- 10.71 Consent Order issued by the FDIC and CDFI to Plumas Bank on March 18, 2011, is included as Exhibit 10.1 of the Registrant's 8-K filed on March 21, 2011, which is incorporated by this reference herein.
- 10.72 Stipulation and Consent to the Issuance of Consent Order among Plumas Bank and the FDIC entered into on March 16, 2011, is included as Exhibit 10.2 of the Registrant's 8-K filed on March 21, 2011, which is incorporated by this reference herein.
- 10.73 Written Agreement with Federal Reserve Bank of San Francisco effective July 28, 2011, is included as Exhibit 10.1 of the Registrant's 8-K filed on July 29, 2011, which is incorporated by this reference herein.

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- 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 7 Earnings Per Share.
- 31.1 Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated November 10, 2011.
- 31.2 Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated November 10, 2011.
- 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 10, 2011.
- 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 10, 2011.

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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 10, 2011

/s/ Richard L. Belstock
Richard L. Belstock
Interim Chief Financial Officer

/s/ Andrew J. Ryback
Andrew J. Ryback
Interim President and Chief Executive Officer