PLUMAS BANCORP
Form 10-Q
August 05, 2011

Table of Contents

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

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED June 30, 2011

o **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	**75-2987096**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
35 S. Lindan Avenue, Quincy, California	**95971**
(Address of Principal Executive Offices)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ No o

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of August 5, 2011
4,776,339 shares

TABLE OF CONTENTS

Table of Contents

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

(In thousands, except share data)

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 62,282	$ 64,628
Investment securities	45,653	63,017
Loans, less allowance for loan losses of $7,267 at June 30, 2011 and $7,324 at December 31, 2010	296,158	307,151
Premises and equipment, net	13,913	14,431
Bank owned life insurance	10,639	10,463
Real estate and vehicles acquired through foreclosure	6,697	8,884
Accrued interest receivable and other assets	18,309	15,906
Total assets	$ 453,651	$ 484,480
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	$ 111,910	$ 111,802
Interest bearing	284,630	313,085
Total deposits	396,540	424,887
Accrued interest payable and other liabilities	7,752	11,295
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	414,602	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 June 30, 2011 and December 31, 2010	11,725	11,682
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,776,339 shares at June 30, 2011 and December 31, 2010	5,962	6,027
Retained earnings	21,137	20,331
Accumulated other comprehensive income (loss)	225	(52)
Total shareholders equity	39,049	37,988
Total liabilities and shareholders equity	$ 453,651	$ 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 June 30, 2011	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010
Interest Income:				
Interest and fees on loans	$ 4,302	$ 4,733	$ 8,684	$ 9,502
Interest on investment securities:				
Taxable	350	426	700	933
Exempt from Federal income taxes	1	8	6	115
Other	23	14	52	19
Total interest income	4,676	5,181	9,442	10,569
Interest Expense:				
Interest on deposits	402	711	901	1,498
Interest on borrowings		65		134
Interest on junior subordinated deferrable interest debentures	77	76	152	151
Other	8	1	19	2
Total interest expense	487	853	1,072	1,785
Net interest income before provision for loan losses	4,189	4,328	8,370	8,784
Provision for Loan Losses	600	900	2,300	2,400
Net interest income after provision for loan losses	3,589	3,428	6,070	6,384
Non-Interest Income:				
Service charges	873	932	1,701	1,830
Sale of merchant processing portfolio		1,435		1,435
Gain on sale of investments	447	10	612	580
Gain on sale of loans	416	239	1,138	240
Earnings on Bank owned life insurance policies	108	113	225	222
Other	191	236	386	445
Total non-interest income	2,035	2,965	4,062	4,752
Non-Interest Expenses:				
Salaries and employee benefits	2,383	2,563	4,754	5,112
Occupancy and equipment	764	822	1,569	1,535
Other	2,401	2,067	3,472	3,515
Total non-interest expenses	5,548	5,452	9,795	10,162

Income before provision for income taxes		76		941		337		974
Provision (Benefit) for Income Taxes		(25)		365		12		264
Net income	$	101	$	576	$	325	$	710
Preferred Stock Dividends and Discount Accretion		(171)		(171)		(342)		(342)
Net income (loss) available to common shareholders	$	(70)	$	405	$	(17)	$	368
Basic earnings (loss) per share	$	(0.01)	$	0.08	$	0.00	$	0.08
Diluted earnings (loss) per share	$	(0.01)	$	0.08	$	0.00	$	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 Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities:		
Net income	$ 325	$ 710
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,300	2,400
Change in deferred loan origination costs/fees, net	(174)	(95)
Depreciation and amortization	737	875
Stock-based compensation expense	(65)	(28)
Amortization of investment security premiums	201	232
Accretion of investment security discounts	(12)	(38)
Net loss on sale of other real estate	674	37
Net gain on sale of vehicles owned	(1)	(4)
Gain on sale of investments	(612)	(580)
Gain on sale of loans held for sale	(1,138)	(240)
Loans originated for sale	(10,643)	(8,249)
Proceeds from secured borrowing		4,885
Proceeds from loan sales	11,109	3,743
Earnings on Bank owned life insurance policies	(176)	(177)
Provision for losses on other real estate	(136)	346
(Increase) decrease in accrued interest receivable and other assets	(2,537)	1,568
Increase in accrued interest payable and other liabilities	1,145	169
Net cash provided by operating activities	997	5,554
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	12,000	17,720
Purchases of available-for-sale investment securities	(24,187)	(18,179)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	3,095	3,710
Proceeds from sale of available-for-sale securities	27,351	15,140
Net decrease in loans	3,006	6,260
Proceeds from sale of other vehicles	23	89
Proceeds from sale of other real estate	3,791	2,342
Purchase of premises and equipment	(75)	(1,160)
Net cash provided by investing activities	25,004	25,922

Continued on next page.

Table of Contents

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

	For the Six Months Ended June 30, 2011	2010
Cash Flows from Financing Activities:		
Net (decrease) in demand, interest bearing and savings deposits	$ (6,549)	$ (11,684)
Net (decrease) increase in time deposits	(21,798)	3,345
Net decrease in short-term borrowings		(20,000)
Payment of cash dividends on preferred stock		(150)
Net cash used in financing activities	(28,347)	(28,489)
(Decrease) increase in cash and cash equivalents	(2,346)	2,987
Cash and Cash Equivalents at Beginning of Year	64,628	59,493
Cash and Cash Equivalents at End of Period	$ 62,282	$ 62,480
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$ 1,045	$ 1,609
Income taxes	$ 2	$
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$ 2,044	$ 1,264
Net change in unrealized income on available-for-sale securities	$ 277	$ 124

See notes to unaudited condensed consolidated financial statements.

Table of Contents

PLUMAS BANCORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

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

The Bank operates 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) or by approximately $19.4 million within 180 days of the date of the Agreement and reducing them to fifty percent of Tier I Capital and ALLL or by an additional $4.9 million 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% and Management expects to achieve 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 June 30, 2011 the Bank s leverage ratio was 9.6% and total risk-based capital ratio was 14.5%.

Table of Contents

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 for the remainder of 2011 and annually thereafter.

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 June 30, 2011 and December 31, 2010 and its results of operations for the three-month and six-month periods ended June 30, 2011 and 2010 and its cash flows for the six-month periods ended June 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 six-month periods ended June 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.

Table of Contents

4. INVESTMENT SECURITIES

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

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasury securities	$ 1,008,000	$ 3,000		$ 1,011,000
U.S. Government agencies	30,313,000	188,000		30,501,000
U.S. Government agencies collateralized by mortgage obligations	13,949,000	192,000		14,141,000
	$ 45,270,000	$ 383,000	$	$ 45,653,000

Unrealized gains on available-for-sale investment securities totaling $383,000 were recorded, net of $158,000 in tax benefit, as accumulated other comprehensive income within shareholders equity at June 30, 2011. During the six months ended June 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 six months ended June 30, 2010 the Company sold forty-two available-for-sale securities for $15,140,000, recording a $580,000 gain on sale. There were no securities sold at a loss during the six months ended June 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.

Table of Contents

There were no investment securities with unrealized losses at June 30, 2011. 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 Value	Unrealized 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

The amortized cost and estimated fair value of investment securities at June 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 Cost	Estimated Fair Value
Within one year	$ 1,008,000	$ 1,011,000
After one year through five years	30,313,000	30,501,000
	31,321,000	31,512,000
Investment securities not due at a single maturity date:		
Government-guaranteed mortgage- backed securities	13,949,000	14,141,000
	$ 45,270,000	$ 45,653,000

Investment securities with amortized costs totaling $41,309,000 and $36,828,000 and estimated fair values totaling $41,678,000 and $36,814,000 at June 30, 2011 and December 31, 2010, respectively, were pledged to secure deposits, including public deposits and treasury, tax and loan accounts.

Table of Contents

5. LOANS

Outstanding loans are summarized below, in thousands:

	June 30, 2011	December 31, 2010
Commercial	$ 30,547	$ 33,433
Agricultural	40,784	38,469
Real estate residential	43,614	43,291
Real estate commercial	117,618	119,222
Real estate construction and land development	24,621	31,199
Equity lines of credit	36,910	36,946
Installment	2,906	2,879
Other	6,101	8,761
	303,101	314,200
Deferred loan costs, net	324	275
Allowance for loan losses	(7,267)	(7,324)
	$ 296,158	$ 307,151

At June 30, 2011 and December 31, 2010, nonaccrual loans totaled $20,855,000 and $25,313,000, respectively.

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

	Six Months Ended June 30, 2011	2010
Balance, beginning of period	$ 7,324	$ 9,568
Provision charged to operations	2,300	2,400
Losses charged to allowance	(2,573)	(5,945)
Recoveries	216	123
Balance, end of period	$ 7,267	$ 6,146

Table of Contents

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

	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
June 30, 2011	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$ 26,068	$ 36,257	$ 40,052	$ 93,650	$ 13,038	$ 34,532	$ 243,597
Watch	515	1,674	878	8,248	2,458	508	14,281
Substandard	3,765	2,853	2,670	15,720	8,924	1,748	35,680
Doubtful	199		14		201	122	536
Total	$ 30,547	$ 40,784	$ 43,614	$ 117,618	$ 24,621	$ 36,910	$ 294,094

	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
December 31, 2010	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
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

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity June 30, 2011			Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2010		
	Installment	Other	Total	Installment	Other	Total
Grade:						
Performing	$ 2,836	$ 5,903	$ 8,739	$ 2,830	$ 8,643	$ 11,473
Non-performing	70	198	268	49	118	167
Total	$ 2,906	$ 6,101	$ 9,007	$ 2,879	$ 8,761	$ 11,640

Table of Contents

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

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Installment	Other	Total
Six months end June 30, 2011:									
Allowance for Loan Losses									
Beginning balance	$ 760	$ 184	$ 632	$ 1,819	$ 3,011	$ 652	$ 66	$ 200	$ 7,324
Charge-offs	(166)	(94)	(48)	(244)	(1,789)	(72)	(64)	(97)	(2,574)
Recoveries	41	102		1	5		7	61	217
Provision	420	66	(26)	307	1,447	(28)	108	6	2,300
Ending balance	$ 1,055	$ 258	$ 558	$ 1,883	$ 2,674	$ 552	$ 117	$ 170	$ 7,267
Three months ended June 30, 2011:									
Allowance for Loan Losses									
Beginning balance	$ 944	$ 170	$ 691	$ 2,040	$ 3,994	$ 648	$ 99	$ 173	$ 8,759
Charge-offs	(87)			(244)	(1,789)	(1)	(12)	(40)	(2,173)
Recoveries	35			1	5		3	37	81
Provision	163	88	(133)	86	464	(95)	27		600
Ending balance	$ 1,055	$ 258	$ 558	$ 1,883	$ 2,674	$ 552	$ 117	$ 170	$ 7,267
June 30, 2011:									
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	$ 310	$ 101	$ 143	$ 121	$ 942	$ 75	$ 15	$ 10	$ 1,717
Ending balance: collectively evaluated for impairment	$ 745	$ 157	$ 415	$ 1,762	$ 1,732	$ 477	$ 102	$ 160	$ 5,550
Loans									
Ending balance	$ 30,547	$ 40,784	$ 43,614	$ 117,618	$ 24,621	$ 36,910	$ 2,906	$ 6,101	$ 303,101

Ending balance: individually evaluated for impairment	$ 3,183	$ 1,378	$ 3,568	$ 6,478	$ 8,474	$ 1,248	$ 141	$ 118	$ 24,588
Ending balance: collectively evaluated for impairment	$ 27,364	$ 39,406	$ 40,046	$ 111,140	$ 16,147	$ 35,662	$ 2,765	$ 5,983	$ 278,513
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

Table of Contents

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 June 30, 2011:						
Commercial:						
Commercial	$ 872	$	$ 3,068	$ 3,940	$ 26,607	$ 30,547
Agricultural			1,378	1,378	39,406	40,784
Real estate construction	18		6,478	6,496	18,125	24,621
Real estate commercial	2,619		6,478	9,097	108,521	117,618
Residential:						
Real estate residential	787	100	2,017	2,904	40,710	43,614
Equity LOC	385		1,248	1,633	35,277	36,910
Consumer:						
Installment	141		70	211	2,695	2,906
Other	284	80	118	482	5,619	6,101
Total	$ 5,106	$ 180	$ 20,855	$ 26,141	$ 276,960	$ 303,101
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

Table of Contents

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
As of June 30, 2011:					
With no related allowance recorded:					
Commercial	$ 2,354	$ 2,693			
Agricultural	1,033	1,263			
Real estate construction	2,535	3,219			
Real estate commercial	5,237	5,335			
Real estate residential	1,455	1,455			
Equity Lines of Credit	1,173	1,173			
Installment	126	126			
Other	107	107			
With an allowance recorded:					
Commercial	829	829	$ 310		
Agricultural	345	345	101		
Real estate construction	5,939	5,939	942		
Real estate commercial	1,241	1,241	121		
Real estate residential	2,113	2,124	143		
Equity Lines of Credit	75	75	75		
Installment	15	15	15		
Other	11	11	10		
Total:					
Commercial	3,183	3,522	310	$ 3,070	$ 7
Agricultural	1,378	1,608	101	1,070	14
Real estate construction	8,474	9,158	942	10,619	74
Real estate commercial	6,478	6,576	121	7,313	59
Real estate residential	3,568	3,579	143	3,591	75
Equity Lines of Credit	1,248	1,248	75	1,335	10
Installment	141	141	15	126	4
Other	118	118	10	124	6
Total	$ 24,588	$ 25,950	$ 1,717	$ 27,248	$ 249
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			

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	$	11
Agricultural		868		1,109				1,454		102
Real estate construction		11,501		13,939		1,479		8,440		100
Real estate commercial		8,204		8,204		201		7,516		261
Real estate residential		3,870		3,988		121		750		121
Equity Lines of Credit		1,382		1,382		72		565		
Installment		106		106		8		44		2
Other		118		118				140		11
Total	$	28,755	$	31,890	$	1,903	$	20,833	$	608

Table of Contents

6. COMMITMENTS AND CONTINGENCIES

The Company is party to claims and legal proceedings arising in the ordinary course of business. In the opinion of the Company s management, the amount of ultimate liability with respect to such proceedings will not have a material adverse effect on the financial condition or 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 $67,152,000 and $71,605,000 and stand-by letters of credit of $56,000 and $164,000 at June 30, 2011 and December 31, 2010, respectively.

Of the loan commitments outstanding at June 30, 2011, $3,238,000 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 June 30, 2011 or December 31, 2010.

7. EARNINGS PER SHARE

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) 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.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands, except share and per share data)	**2011**	**2010**	**2011**	**2010**
Net Income (loss):				
Net income (loss)	$ 101	$ 576	$ 325	$ 710
Dividends on preferred shares	(171)	(171)	(342)	(342)
Net income (loss) available to common shareholders	$ (70)	$ 405	$ (17)	$ 368
Earnings Per Share:				
Basic earnings (loss) per share	$ (0.01)	$ 0.08	$ 0.00	$ 0.08
Diluted earnings (loss) per share	$ (0.01)	$ 0.08	$ 0.00	$ 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. When a net loss occurs, no difference in earnings per share is calculated because the conversion of potential common stock is anti-dilutive.

8. COMPREHENSIVE INCOME (LOSS)

Total comprehensive income for the three months ended June 30, 2011 and 2010 totaled $459,000 and $890,000, respectively. Comprehensive income is comprised of unrealized income, net of taxes, on available-for-sale investment securities, which were $358,000 and $314,000 for the three months ended June 30, 2011 and 2010, respectively, together with net income.

Total comprehensive income for the six months ended June 30, 2011 and 2010 totaled $602,000 and $834,000, respectively. Comprehensive income is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were $277,000 and $124,000 for the six months ended June 30, 2011 and 2010, respectively, together with net income.

At June 30, 2011 and December 31, 2010, accumulated other comprehensive income (loss) totaled $225,000 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 550,405 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 June 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.

	Six Months Ended June 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 June 30, 2011 or the six months ended June 30, 2010.

During the six months ended June 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 $65,000 and $28,000 during the six months ended June 30, 2011 and June 30, 2010, respectively and a reduction in the future income tax benefit of $2,000 and $1,000, respectively.

Compensation cost related to stock options recognized in operating results was $18,000 and $44,000 for the quarters ended June 30, 2011 and 2010, respectively. The associated future income tax benefit recognized was $1,000 and $3,000 for the quarters ended June 30, 2011 and 2010 respectively.

Table of Contents

The following table summarizes information about stock option activity for the six months ended June 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	(9,625)	$ 4.55		
Options outstanding at June 30, 2011	550,405	$ 8.85	5.1	$
Options exercisable at June 30, 2011	294,137	$ 13.46	3.1	$
Expected to vest after June 30, 2011	210,223	$ 3.57	7.5	$

At June 30, 2011, there was $161,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 3.3 years. The total fair value of options vested during the six months ended June 30, 2011 was $148,000.

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 June 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.

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 June 30, 2011.

11. FAIR VALUE MEASUREMENT

Fair Value of Financial Instruments

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

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 62,282,000	$ 62,282,000	$ 64,628,000	$ 64,628,000
Investment securities	45,653,000	45,653,000	63,017,000	63,017,000
Loans	296,158,000	296,827,000	307,151,000	304,045,000
FHLB stock	2,095,000	2,095,000	2,188,000	2,188,000
Bank owned life insurance	10,639,000	10,639,000	10,463,000	10,463,000
Accrued interest receivable	1,576,000	1,576,000	1,784,000	1,784,000
Financial liabilities:				
Deposits	$ 396,540,000	$ 396,758,000	$ 424,887,000	$ 425,009,000
Junior subordinated deferrable interest debentures	10,310,000	3,034,000	10,310,000	2,992,000
Accrued interest payable	650,000	650,000	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 June 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.

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.

Table of Contents

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. There were no transfers between levels during the six months ended June 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.

Table of Contents

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring and non recurring basis as of June 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 June 30, 2011 are summarized below:

		Fair Value Measurements at June 30, 2011 Using		
	Total Fair Value	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	$ 1,011,000	$ 1,011,000		
U.S. Government Agencies	30,501,000	30,501,000		
U.S. Government agencies collateralized by mortgage obligations	14,141,000		$ 14,141,000	
	$ 45,653,000	$ 31,512,000	$ 14,141,000	$ 0

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

		Fair Value Measurements at December 31, 2010 Using		
	Total Fair Value	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	$ 0

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.

Table of Contents

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

		Fair Value Measurements at June 30, 2011 Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	$ 1,363,000		$ 1,363,000		$ (278,000)
Agricultural	394,000		394,000		(101,000)
Real estate residential	1,970,000		1,970,000		(38,000)
Real estate commercial	1,842,000		1,842,000		(92,000)
Real estate construction and land development	6,136,000		6,136,000		(730,000)
Equity lines of credit					(75,000)
Installment					(15,000)
Other					(10,000)
Total impaired loans	11,705,000		11,705,000		(1,339,000)
Other real estate	6,684,000		6,684,000		136,000
	$ 18,389,000	$	$ 18,389,000	$	$ (1,203,000)

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

		Fair Value Measurements at December 31, 2010 Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
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)
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)

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

Table of Contents

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 $1,339,000 and $1,356,000 represent impairment charges recognized during the six months and year ended June 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. Management is currently determining the potential impact that the adoption of this standard may have on the Company s financial position, results of operations and disclosures.

Table of Contents

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 June 30, 2011 and December 31, 2010 and for the three and six month periods ended June 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 $325 thousand for the six months ended June 30, 2011, down $385 thousand from net income of $710 thousand during the six months ended June 30, 2010. The reduction in income was primarily related to a decline of $690 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. The effect of this was partially offset in the 2011 period by an $898 thousand increase in gains on the sale of government guaranteed loans. Net interest income declined by $414 thousand from $8.8 million during the 2010 period to $8.4 million during the six months ended June 30, 2011. These declines in revenue were partially offset by declines of $367 thousand in non-interest expense and $252 thousand in the provision for income taxes. In addition, loan loss provision declined by $100 thousand from $2.4 million during the first six months of 2010 to $2.3 million during the current six month period.

Primarily related to a decrease in loan balances, interest income declined by $1.1 million; however, this was mostly offset by a decline of $713 thousand in interest expense mostly related to a decrease in the rate paid and average balance of interest bearing deposits. Non-interest expense benefited from a $358 thousand decline in salary and benefit expense while a $673 thousand loss on sale of OREO was offset by a $482 thousand decline in the OREO loss provision and a $190 thousand decline in OREO carrying costs. Pre-tax earnings decreased by $637 thousand from $974 thousand during the six months ended June 30, 2010 to $337 thousand during the current six month period. The provision for income taxes decreased from $264 thousand during the 2010 period to $12 thousand during the current six month period.

Net income (loss) allocable to common shareholders decreased from income of $368 thousand or $0.08 per share during the six months ended June 30, 2010 to a loss of $17 thousand or $0.00 per share during the current six month period. Income (loss) allocable to common shareholders is calculated by subtracting dividends accrued and discount amortized on preferred stock from net income / (loss).

Total assets at June 30, 2011 were $454 million, a decrease of $30.8 million from $485 million at December 31, 2010. This decrease was mostly related to a net decline in investment securities of $17.4 million resulting from investment security sales of $27.4 million and a decrease in loan balances of $11.0 million. Cash and due from banks decreased by $2.3 million, from $64.6 million at December 31, 2010 to $62.3 million at June 30, 2011 and real estate and vehicles acquired through foreclosure declined by $2.2 million to $6.7 million. These declines were slightly offset by a $2.1 million increase in all other assets.

Deposits decreased by $28.3 million from $425 million at December 31, 2010 to $397 million at June 30, 2011. The decline in deposits was mostly 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. Other liabilities decreased by $3.5 million primarily related to 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 has 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 June 30, 2011.

The annualized return on average assets was 0.14% for the six months ended June 30, 2011 down from 0.28% for the six months ended June 30, 2010. The annualized return (loss) on average common equity was (0.1%) for the six months ended June 30, 2011 down from 2.7% for the six months ended June 30, 2010.

Table of Contents

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2011

Net interest income before provision for loan losses. Net interest income, on a nontax-equivalent basis, for the six months ended June 30, 2011 was $8.4 million, a decline of $414 thousand from the $8.8 million earned during the same period in 2010. The largest component of the decrease in net interest income was 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 the average balance of time deposits and long term borrowings and the rate paid on time, NOW and money market deposits. Net interest margin for the six months ended June 30, 2011 decreased 18 basis points, or 4%, to 4.06%, down from 4.24% for the same period in 2010.

Interest income decreased by $1.1 million or 11%, to $9.4 million for the six months ended June 30, 2011 primarily as a result of a decline in the average balance and yield on loans. Interest and fees on loans decreased $818 thousand to $8.7 million for the six months ended June 30, 2011 as compared to $9.5 million during the first half of 2010. The Company s average loan balances were $307 million for the six months ended June 30, 2011, down $20.0 million, or 6%, from $327 million for the same period in 2010. The decline in loan balances includes net charge-offs which totaled $4.3 million from July 1, 2010 to June 30, 2011 as well as loans transferred to OREO. The average rate earned on the Company s loan balances decreased by 15 basis points to 5.71% during the first six months of 2011 compared to 5.86% during the first six months of 2010. The decrease in loan yield reflects an increase in nonperforming loans balances which averaged $23.6 million during the six months ended June 30, 2011 and $16.6 million during the same period in 2010. Interest income on investment securities deceased by $342 thousand related to a decrease in average balance of $7.7 million, from $74.8 million for the six months ended June 30, 2010 to $67.1 million during the current period and a decline in yield of 70 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 $52 thousand in 2011 and $19 thousand in 2010, relates to interest on cash balances held at the Federal Reserve.

Interest expense on deposits decreased by $597 thousand, or 40%, to $901 thousand for the six months ended June 30, 2011, down from $1,498 thousand 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 $370 thousand. Average time deposits declined by $18.8 million from $127.4 million during the first six months of 2010 to $108.6 million during the six months ended June 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, which total $18 million at June 30, 2011, will continue to mature through the third quarter of 2011. The average rate paid on these promotional deposits during the six months ended June 30, 2011 was 2%. The average rate paid on time deposits decreased from 1.67% during the first half of 2010 to 1.27% during the current six 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 $164 thousand. Rates paid on NOW accounts declined by 31 basis points from 0.52% during the first six 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 currently are more focused on the profitability of the public sweep accounts rather than the amount of deposits we can generate from this source.

Interest expense on money market accounts decreased by $71 thousand related to a decrease in rate paid on these accounts of 32 basis points from 0.63% during the six months ended June 30, 2010 to 0.31% during the current six 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 $129 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 .

Table of Contents

The following table presents for the six-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 Six Months Ended June 30, 2011			For the Six Months Ended June 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)	$ 306,908	$ 8,684	5.71%	$ 326,884	$ 9,502	5.86%
Investment securities (1)	67,143	706	2.12%	74,855	1,048	2.82%
Interest-bearing deposits	42,126	52	0.25%	16,388	19	0.23%
Total interest-earning assets	416,177	9,442	4.58%	418,127	10,569	5.10%
Cash and due from banks	12,881			40,966		
Other assets	42,679			50,053		
Total assets	$ 471,737			$ 509,146		
Interest-bearing liabilities:						
NOW deposits	$ 97,707	103	0.21%	$ 103,955	267	0.52%
Money market deposits	40,609	63	0.31%	42,946	134	0.63%
Savings deposits	56,427	49	0.18%	50,032	41	0.17%
Time deposits	108,562	686	1.27%	127,446	1,056	1.67%
Total deposits	303,305	901	0.60%	324,379	1,498	0.93%
Short-term borrowings	6		0.15%	1,989	5	0.51%
Long-term borrowings			0.00%	20,000	129	1.30%
Other interest-bearing liabilities	702	19	5.46%	128	2	3.15%
Junior subordinated debentures	10,310	152	2.97%	10,310	151	2.95%
Total interest-bearing liabilities	314,323	1,072	0.69%	356,806	1,785	1.01%
Non-interest bearing deposits	111,256			105,444		
Other liabilities	7,329			8,256		

Shareholders equity	38,829			38,640		
Total liabilities & equity	$ 471,737			$ 509,146		
Cost of funding interest-earning assets (3)			0.52%			0.86%
Net interest income and margin (4)		$ 8,370	4.06%		$ 8,784	4.24%

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

(2) Net loan fees/(costs) included in loan interest income for the six-month periods ended June 30, 2011 and 2010 were $41 thousand and $(21) thousand, respectively.

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

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

Table of Contents

The following table sets forth changes in interest income and interest expense for the six-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 six months ended June 30 (in thousands)			
	Volume (1)	**Rate (2)**	**Mix (3)**	**Total**
Interest-earning assets:				
Loans	$ (581)	$ (253)	$ 16	$ (818)
Investment securities	(108)	(261)	27	(342)
Other	30	1	2	33
Total interest income	(659)	(513)	45	(1,127)
Interest-bearing liabilities:				
NOW deposits	(16)	(158)	10	(164)
Money market deposits	(7)	(67)	3	(71)
Savings deposits	5	3		8
Time deposits	(156)	(251)	37	(370)
Short-term borrowings	(5)	(4)	4	(5)
Long-term borrowings	(129)			(129)
Other interest-bearing liabilities	9	1	7	17
Junior subordinated debentures		1		1
Total interest expense	(299)	(475)	61	(713)
Net interest income	$ (360)	$ (38)	$ (16)	$ (414)

(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 six months ended June 30, 2011 we recorded a provision for loan losses of $2.3 million down $0.1 million from the $2.4 million provision recorded during the first half 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 six months ended June 30, 2011 non-interest income decreased by $690 thousand to $4.1 million, from $4.8 million during the six months ended June 30, 2010. This decrease was primarily 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 $112 thousand during the comparison periods. Service charges on deposit accounts declined by $129 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. Partially offsetting these declines in income was an $898 thousand increase in gain on sale of government guaranteed loans. During the first quarter of 2010 loans sold were subject to a 90 day premium recourse period and therefore no gains were recorded. During 2011, related to a change in SBA requirements guaranteed portions of SBA loans are no longer required to be sold with the 90 day premium recourse requirement. This resulted in recognizing gains for loans sold during the fourth quarter of 2010 as well as loans sold during the six months ended June 30, 2011. In addition during 2011 we continued to grow our government guaranteed loan production as evidenced by an increase in loans originated for sale from $8.2 million during the first six months of 2010 to $10.6 million during the current six month period.

Table of Contents

During the six months ended June 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 $14.6 million and recorded a $580 thousand gain on sale.

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

	For the Six Months Ended June 30, 2011	For the Six Months Ended June 30, 2010	Dollar Change	Percentage Change
Service charges on deposit accounts	$ 1,701	$ 1,830	$ (129)	-7.0%
Gain on sale of loans	1,138	240	898	374%
Gain on sale of securities	612	580	32	5.5%
Earnings on life insurance policies	225	222	3	1.4%
Loan service fees	107	78	29	37.2%
Customer service fees	69	65	4	6.2%
Safe deposit box and night depository income	33	33		%
Merchant processing income	2	114	(112)	-98.2%
Sale of merchant processing portfolio		1,435	(1,435)	-100.0%
Other	175	155	20	12.9%
Total non-interest income	$ 4,062	$ 4,752	$ (690)	-14.5%

Non-interest expenses. We have achieved savings in many categories of non-interest expense resulting in a reduction in non-interest expense of $367 thousand from $10.2 million during the six months ended June 30, 2010 to $9.8 million during the current six month period. Significant reductions in salary and benefits expense, OREO expense and the provision for OREO losses were partially offset by an increase in loss on sale of OREO and an increase in the FDIC insurance assessment.

Salaries and employee benefits decreased by $358 thousand primarily related to declines in salary expense. Salary expense, excluding commissions, declined by $722 thousand related to a reduction in staffing in all areas with the exception of government guaranteed lending and problem assets. While the Company has reduced personnel in most functional areas, we have increased staffing in our problem asset department to effectively manage our increased level of nonperforming assets. Additionally, we have increased staffing in our government guaranteed lending department as we see continued opportunities for loan growth in this area. Total full time equivalent employees (FTE) were 143 at June 30, 2011 down from 155 at June 30, 2010. Commission expense, which relates to government guaranteed lending personnel and is included in salary expense, increased by $306 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. When other real estate is acquired, any excess of the Bank s recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property less costs to sell is charged against the allowance for loan losses. 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. The $482 thousand reduction in our OREO valuation allowance relates to changes in estimated values on several of our OREO properties based on recent appraisals.

OREO expense declined by $190 thousand from $405 thousand during the six months ended June 30, 2010 to $215 thousand during the same period in 2011. These savings were primarily related to property taxes on OREO properties as we received a refund of overpayment of prior your taxes in 2011 and some of our OREO properties were reassessed during the second half of 2010 resulting in lower tax expense in 2011.

Loss on sale of OREO and OVO totaled $673 thousand related to the sale of one property. 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 $684 thousand loss on sale; however, management believes the loss was prudent given the significant affect this transaction had in decreasing nonperforming assets. FDIC insurance expense increased by $109 thousand related to an increase in the assessment rate.

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

	For the Six Months Ended June 30, 2011	2010	Dollar Change	Percentage Change
Salaries and employee benefits	$ 4,754	$ 5,112	$ (358)	-7.0%
Occupancy and equipment	1,569	1,535	34	2.2%
Loss on sale of OREO and OVO	673	33	640	1,939.4%
Outside Service fees	643	602	41	6.8%
FDIC insurance and assessments	615	506	109	21.5%
Professional fees	352	366	(14)	-3.8%
OREO Expense	215	405	(190)	-46.9%
Telephone and data communication	170	176	(6)	-3.4%
Business development	131	132	(1)	-0.8%
Loan and collection expenses	119	147	(28)	-19.0%
Director compensation	115	114	1	0.9%
Armored car and courier	108	117	(9)	-7.7%
Advertising and shareholder relations	104	117	(13)	-11.1%
Deposit premium amortization	87	87		%
Postage	87	109	(22)	-20.2%
Stationery and supplies	70	64	6	9.4%
Insurance Expense	46	88	(42)	-47.7%
Provision for OREO losses	(136)	346	(482)	-139.3%
Other	73	106	(33)	-31.1%
Total non-interest expense	$ 9,795	$ 10,162	$ (367)	-3.6%

Provision for income taxes. The Company recorded an income tax provision of $12 thousand, or 3.6% of pre-tax income for the six months ended June 30, 2011. This compares to an income tax provision of $264 thousand, or 27.1% of pre-tax loss for the six months ended June 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 June 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 JUNE 30, 2011

Net Income. The Company recorded net income of $101 thousand for the three months ended June 30, 2011, down from net income of $576 thousand for the three months ended June 30, 2010. This decrease in earnings mostly related to a decrease of $930 thousand in non-interest income as non-interest income was abnormally high during the 2010 quarter related to the gain on sale of our merchant card portfolio. In addition, net-interest income declined by $139 thousand and non-interest expense increased by $96 thousand. Reductions in expense included a decrease in the provision for loan losses of $300 thousand from $900 thousand during the second quarter of 2010 to $600 thousand in the current quarter and a decrease in the provision for income taxes of $390 thousand.

Net income (loss) allocable to common shareholders decreased from net income of $405 thousand or $0.08 per share during the three months ended June 30, 2010 to a net loss of $70 thousand or $(0.01) per share during the current three month period. Income (loss) allocable to common shareholders is calculated by subtracting dividends accrued and discount amortized on preferred stock from net income / (loss).

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 June 30, 2011, a decrease of $139 thousand, or 3%, from $4.3 million for the same period in 2010. The decline in net interest income was primarily related to a decrease in the average balance of loans and decreases in the yield on loans and investments. The effect of these items on net interest income was partially offset by a decline in the rates paid on deposits and decreases in time deposits and long-term borrowings. Net interest margin for the three months ended June 30, 2011 decreased 5 basis points to 4.12%, down from 4.17% for the same period in 2010.

Interest income decreased $505 thousand or 10%, to $4.7 million for the three months ended June 30, 2011 primarily as a result of a decline in average balance and yield on loan balances. Interest and fees on loans decreased $431 thousand to $4.3 million for the three months ended June 30, 2011 as compared to $4.7 million during the second quarter of 2010. The Company s average loan balances were $304 million during the three months ended June 30, 2011, down $21.5 million, or 7%, from $326 million for the same period in 2010. The decline in loan balances includes net charge-offs which totaled $4.3 million from July 1, 2010 to June 30, 2011 as well as $2.2 million in loans transferred to OREO. The average rate earned on the Company s loan balances decreased from 5.82% during the second quarter of 2010 to 5.67% during the three months ended June 30, 2011 mostly related to an increase in average nonaccrual loans from $16.3 million during the second quarter of 2010 to $22.5 million during the current quarter. Interest income on investment securities decreased by $83 thousand related to a decline in yield of 53 basis points from 2.65% during the 2010 quarter to 2.12% 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. Interest income on other interest-earning assets, which totaled $23 thousand in 2011 and $14 thousand in 2010, relates to interest on balances held at the Federal Reserve.

Interest expense on deposits decreased by $309 thousand, or 43%, to $402 thousand for the three months ended June 30, 2011, down from $711 thousand 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 $220 thousand related both to a decrease in average balance and a decline in rate paid. Average time deposits declined by $24.5 million from $127.6 million during the second quarter of 2010 to $103.1 million during the three months ended June 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, which total $18 million at June 30, 2011, began maturing at the end of 2010 and will continue to mature into the third quarter of 2011. The average rate paid on time deposits decreased from 1.63% during the three months ended June 30, 2010 to 1.17% during the current quarter. 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 $61 thousand. Rates paid on NOW accounts declined by 21 basis points from 0.42% during the second quarter of 2010 to 0.21% during the 2011 quarter as we significantly lowered the rate paid on local public agencies NOW accounts. Although we lost some deposits by lowering this rate; we currently are more focused on the profitability of the public sweep accounts rather than the amount of deposits we can generate from this source.

Interest expense on money market accounts decreased by $32 thousand related to a decrease in rate paid on these accounts of 29 basis points from 0.58% during the three months ended June 30, 2010 to 0.29% during the current three 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 $65 thousand as there were no outstanding long term FHLB borrowings during 2011.

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 June 30, 2011			**For the Three Months Ended June 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)	$ 304,440	$ 4,302	5.67%	$ 325,982	$ 4,733	5.82%
Investment securities (1)	66,438	351	2.12%	65,671	434	2.65%
Other	36,466	23	0.25%	24,419	14	0.23%
Total interest-earning assets	407,344	4,676	4.60%	416,072	5,181	4.99%
Cash and due from banks	12,978			40,691		
Other assets	42,553			50,542		
Total assets	$ 462,875			$ 507,305		
Interest-bearing liabilities:						
NOW deposits	$ 95,383	49	0.21%	$ 104,183	110	0.42%
Money market deposits	39,135	28	0.29%	41,377	60	0.58%
Savings deposits	57,453	25	0.17%	50,373	21	0.17%
Time deposits	103,079	300	1.17%	127,594	520	1.63%
Total deposits	295,050	402	0.55%	323,527	711	0.88%
Short-term borrowings	11		0.15%			%
Long-term borrowings			%	20,000	65	1.30%
Other interest-bearing liabilities	1,313	8	2.44%	122	1	3.29%
Junior subordinated debentures	10,310	77	3.00%	10,310	76	2.96%

Total interest-bearing liabilities	306,684	487	0.64%	353,959	853	0.97%
Non-interest bearing deposits	111,130			104,808		
Other liabilities	5,808			10,123		
Shareholders equity	39,253			38,415		
Total liabilities & equity	$ 462,875			$ 507,305		
Cost of funding interest-earning assets (3)			0.48%			0.82%
Net interest income and margin (4)		$ 4,189	4.12%		$ 4,328	4.17%

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

(2) Net loan fees/(costs) included in loan interest income for the three-month periods ended June 30, 2011 and 2010 were $37 thousand and $(32) thousand, respectively.

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

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

Table of Contents

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

	2011 over 2010 change in net interest income for the three months ended June 30 (in thousands)			
	Volume (1)	**Rate (2)**	**Mix (3)**	**Total**
Interest-earning assets:				
Loans	$ (313)	$ (127)	$ 9	$ (431)
Investment securities	5	(87)	(1)	(83)
Other	7	1	1	9
Total interest income	(301)	(213)	9	(505)
Interest-bearing liabilities:				
NOW deposits	(9)	(56)	4	(61)
Money market deposits	(3)	(31)	2	(32)
Savings deposits	3	1		4
Time deposits	(100)	(149)	29	(220)
Short-term borrowings				
Long-term borrowings	(65)			(65)
Other interest-bearing liabilities	10		(3)	7
Junior subordinated debentures		1		1
Total interest expense	(164)	(234)	32	(366)
Net interest income	$ (137)	$ 21	$ (23)	$ (139)

(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 $600 thousand provision for loan losses for the three months ended June 30, 2011 compared to the $900 thousand provision for loan losses for the three months ended June 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 June 30, 2011, total non-interest income decreased by $930 thousand from the same period in 2010. This decrease was primarily related to the sale of the Company s merchant processing portfolio in June, 2010. Other declines in non-interest income include a $59 thousand decline in service charge income mostly related to a reduction in overdraft income and a $59 thousand reduction in merchant processing income. Partially offsetting these declines was a $447 thousand gain on the sale of $23 million in available-for sale investment securities and an increase of $177 thousand in the gain on sale of government guaranteed loans.

Table of Contents

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

	For the Three Months Ended June 30, 2011	2010	Dollar Change	Percentage Change
Service charges on deposit accounts	$ 873	$ 932	$ (59)	-6.3%
Gain on sale of securities	447	10	437	4,370.0%
Gain on sale of loans	416	239	177	74.1%
Earnings on life insurance policies	108	113	(5)	-4.4%
Loan service fees	53	44	9	20.5%
Customer service fees	35	25	10	40.0%
Safe deposit box and night depository income	15	16	(1)	-6.3%
Merchant processing income	1	60	(59)	-98.3%
Sale of merchant processing portfolio		1,435	(1,435)	-100.0%
Other	87	91	(4)	-4.4%
Total non-interest income	$ 2,035	$ 2,965	$ (930)	-31.4%

Non-interest expenses. Although we have achieved savings in many categories of non-interest expense, these reductions in expense were offset during the current quarter by a $684 thousand loss on the sale of our largest OREO property. Non-interest expense totaled $5.5 million during the three months ended June 30, 2011 an increase of $96 thousand from $5.4 million during the 2010 quarter.

Salaries and employee benefits decreased by $180 thousand primarily related to declines in salary expense. Salary expense, excluding commissions, declined by $404 thousand related to a reduction in staffing in all areas with the exception of government guaranteed lending and problem assets. Commission expense, which relates to government guaranteed lending personnel and is included in salary expense, increased by $75 thousand resulting from the increase in government guaranteed loan sales.

The provision for OREO losses declined by $82 thousand from $346 thousand during the 2010 quarter to $264 thousand during the current quarter. This loss provision represents declines in OREO values during the three month periods.

OREO expense declined by $103 thousand from $245 thousand during the three months ended June 30, 2010 to $142 thousand during the current quarter. These savings were primarily related to property taxes on OREO properties as some of our OREO properties were reassessed during the second half of 2010 resulting in lower tax expense in 2011.

Insurance expense declined by $75 thousand as our Chief Credit Officer resigned during the second quarter of 2011. Because he resigned prior to normal retirement age he forfeited his right to his split dollar life insurance benefit resulting in a reduction in insurance expense during the quarter. Other expense was abnormally high during the second quarter of 2010 resulting in a reduction in the comparison period of $80 thousand.

Loss on sale of OREO and OVO totaled $673 thousand primarily related to the loss on sale of one property. 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 $684 thousand loss on sale; however, management believes the loss was prudent given the significant affect this transaction had in decreasing nonperforming assets. FDIC insurance expense increased by $86 thousand related to an increase in the assessment rate.

Table of Contents

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

	For the Three Months Ended June 30, 2011	2010	Dollar Change	Percentage Change
Salaries and employee benefits	$ 2,383	$ 2,563	$ (180)	-7.0%
Occupancy and equipment	764	822	(58)	-7.1%
Loss on sale of OREO and OVO	673	17	656	3,858.8%
FDIC insurance and assessments	339	253	86	34.0%
Outside Service fees	318	298	20	6.7%
Provision for OREO losses	264	346	(82)	-23.7%
OREO Expense	142	245	(103)	-42.0%
Professional fees	136	187	(51)	-27.3%
Telephone and data communication	83	86	(3)	-3.5%
Business development	75	66	9	13.6%
Director compensation	58	58		%
Loan and collection expenses	58	84	(26)	-31.0%
Armored car and courier	57	61	(4)	-6.6%
Advertising and shareholder relations	48	59	(11)	-18.6%
Deposit premium amortization	44	44		%
Postage	41	50	(9)	-18.0%
Stationery and supplies	37	30	7	23.3%
Insurance Expense	(9)	66	(75)	-113.6%
Other	37	117	(80)	-68.4%
Total non-interest expense	$ 5,548	$ 5,452	$ 96	1.8%

Provision (benefit) for income taxes. The Company recorded income tax benefit of $25 thousand, or 32.9% of pre-tax income for the three months ended June 30, 2011. This compares to income tax expense of $365 thousand, or 38.8% of pre-tax loss for the three months ended June 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 38.8%, 14.4% and 13.5%, respectively of the Company s total loan portfolio at June 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 8.1% and 9.9% of the loan portfolio as of June 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.

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 June 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 June 30, 2011 and December 31, 2010, approximately 72% 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 $41 million at June 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.

Table of Contents

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 loans 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 six-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 Six Months Ended June 30, (in thousands)	
	2011	**2010**
Balance at January 1,	$ 7,324	$ 9,568
Charge-offs:		
Commercial and agricultural	(259)	(828)
Real estate mortgage	(364)	(2,484)
Real estate construction	(1,789)	(2,380)
Consumer	(161)	(253)
Total charge-offs	(2,573)	(5,945)
Recoveries:		
Commercial and agricultural	142	7
Real estate mortgage	1	3
Real estate construction	5	51
Consumer	68	62
Total recoveries	216	123
Net charge-offs	(2,357)	(5,822)
Provision for loan losses	2,300	2,400
Balance at June 30,	$ 7,267	$ 6,146

Annualized net charge-offs during the six-month period to average loans	1.55%	3.59%
Allowance for loan losses to total loans	2.40%	1.90%

We currently anticipate that net charge-offs could range from approximately $3.5 million to $5.5 million in 2011, the largest part of which are anticipated to be related to real estate loans consistent with 2010 activity. 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 $7.3 million at June 30, 2011 and December 31, 2010. Specific reserves related to impaired loans declined from $1.9 million at December 31, 2010 to $1.7 million at June 30, 2011. General reserves increased by $130 thousand to $5.6 million at June 30, 2011. Related to the increase in general reserves and a decrease in loan balances, the allowance for loan losses as a percentage of total loans increased from 2.33% at December 31, 2010 to 2.40% at June 30, 2011. The percentage of general reserves to unimpaired loans also increased from 1.90% at December 31, 2010 to 1.99% at June 30, 2011.

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 June 30, 2011 were $21.0 million, a decrease of $4.4 million from the $25.4 million balance at December 31, 2010. The decline of $4.4 million includes charges-offs of $1.8 million, transfers to OREO of $0.9 million with the remaining balance of $1.7 million related primarily to repayments of principal. Specific reserves on nonaccrual loans totaled $1.6 million at June 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 $5.1 million at June 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 $2.9 million from $38.6 million at December 31, 2010 to $35.7 million at June 30, 2011. Loans classified as watch increased slightly from $14.2 million at December 31, 2010 to $14.3 million at June 30, 2011. At June 30, 2011, $16.7 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 June 30, 2011 and December 31, 2010, the Company s recorded investment in impaired loans totaled $24.6 million and $28.8 million, respectively. The specific allowance for loan losses related to impaired loans totaled $1.7 million and $1.9 million at June 30, 2011 and December 31, 2010, respectively. Additionally, $1.4 million has been charged off against the impaired loans at June 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 June 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.

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 thirty-five properties totaling $6.7 million June 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 $684 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 6.11% at June 30, 2011 and 7.15% at December 31, 2010.

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

	Six Months Ended June 30, 2011	2010
	(in thousands)	
Beginning Balance	$ 8,867	$ 11,204
Additions	2,026	1,240
Dispositions	(4,346)	(2,379)
Change in OREO valuation	136	(346)
Ending Balance	$ 6,683	$ 9,719

Investment Portfolio and Federal Funds Sold. Total investment securities decreased by $17.3 million from $63.0 million at December 31, 2010 to $45.7 million as of June 30, 2011. While investment securities decreased from December 31, 2010 levels, we anticipate adding to investment securities during the next six months. The investment portfolio at June 30, 2011 and December 31, 2010 consisted of 2% U.S. Treasuries and 98% U.S. Government agencies. There were no Federal funds sold at June 30, 2011 or December 31, 2010; however, the Bank maintained interest earning balances at the Federal Reserve Bank (FRB) totaling $48.6 million at June 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 $396.5 million as of June 30, 2011, a decrease of $28.4 million, or 7%, from the December 31, 2010 balance of $424.9 million. The decline in deposits was mostly 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. These promotional time deposits, which total $18 million at June 30, 2011, began maturing at the end of 2010 and will continue to mature into the third quarter of 2011.

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 deceased and we had an increase in savings accounts. Non-interest bearing demand deposits were 28% of total deposits at June 30, 2011 and 26% of total deposits at December 31, 2010. Interest bearing transaction accounts were 23% of total deposits at June 30, 2011 and 24% of total deposits at December 31, 2010. Money market and savings deposits totaled 25% of total deposits at June 30, 2011 and 22% at December 31, 2010. Time deposits were 24% of total deposits at June 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 June 30, 2011 and December 31, 2010 were $2 million in CDARS reciprocal time deposits which, under regulatory guidelines, are classified as brokered deposits.

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

The average balance in short-term borrowings during the six months ended June 30, 2011 and 2010 were $6 thousand and $2.0 million, respectively. The average rate paid on short-term borrowings during the six months ended June 30, 3011 and 2010, was 0.15% and 0.51%, respectively. The maximum amount of short-term borrowings outstanding at any month-end during the six months ended June 30, 2011 and June 30, 2010 was $0 and $20 million, respectively.

Capital Resources

Shareholders equity as of June 30, 2011 totaled $39.0 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 addition 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 June 30, 2011 the amount of the arrearage on the dividend payments of the Series A Preferred Stock is $747 thousand representing five quarterly payments and the amount of the arrearage on the payments on the subordinated debt associated with the trust preferred securities is $389 thousand also representing five 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.

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 June 30, 2011 and December 31, 2010, in thousands:

	June 30, 2011		December 31, 2010	
	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio				
Plumas Bancorp and Subsidiary	**$ 43,988**	**9.6%**	**$ 42,944**	**8.9%**
Minimum regulatory requirement	18,315	4.0%	19,361	4.0%
Plumas Bank	**43,750**	**9.6%**	**43,262**	**8.9%**
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	22,882	5.0%	24,190	5.0%
Minimum regulatory requirement	18,306	4.0%	19,352	4.0%
Tier 1 Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	**43,988**	**13.3%**	**42,994**	**12.7%**
Minimum regulatory requirement	13,194	4.0%	13,570	4.0%
Plumas Bank	**43,750**	**13.3%**	**43,262**	**12.8%**
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	19,776	6.0%	20,342	6.0%
Minimum regulatory requirement	13,184	4.0%	13,561	4.0%
Total Risk-Based Capital Ratio				
Plumas Bancorp and Subsidiary	**48,152**	**14.6%**	**47,274**	**13.9%**
Minimum regulatory requirement	26,389	8.0%	27,140	8.0%
Plumas Bank	**47,911**	**14.5%**	**47,539**	**14.0%**
Minimum requirement for Well-Capitalized institution under the prompt corrective action plan	32,961	10.0%	33,903	10.0%
Minimum regulatory requirement	26,369	8.0%	27,123	8.0%

Management believes that the Company and the Bank met all their capital adequacy requirements as of June 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 expects to achieve the leverage ratio target of 10% by year-end without the injection of any new capital.

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.

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 June 30, 2011, the Company had $67.2 million in unfunded loan commitments and $56 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 $67.2 million in unfunded loan commitments, $30.1 million and $37.1 million represented commitments to commercial and consumer customers, respectively. Of the total unfunded commitments at June 30, 2011, $34.5 million were secured by real estate, of which $6.7 million was secured by commercial real estate and $27.8 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 $92,000 and a credit of $49,000, during the six months ended June 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 and municipal 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 $71,206,000 from the FHLB secured by commercial and residential mortgage loans with carrying values totaling $118,547,000. The Company is required to hold FHLB stock as a condition of membership. At June 30, 2011, the Company held $2,095,000 of FHLB stock which is recorded as a component of other assets. At this level of stock holdings the Company can borrow up to $44,566,000. There were no borrowings outstanding as of June 30, 2011. To borrow the $71,206,000 in available credit the Company would need to purchase $1,252,000 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 $396.5 million as of June 30, 2011, a decrease of $28.4 million, or 7%, 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.

Table of Contents

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 June 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 June 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. UNREGISTERD 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 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 $747 thousand representing five quarterly payments.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

3.1	Articles of Incorporation as amended of Registrant included as exhibit 3.1 to the Registrant s Form S-4, File No. 333-84534, which is incorporated by reference herein.
3.2	Bylaws of Registrant as amended on 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.

10.21	Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.22	Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.24	Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.25	Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.

10.27	Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.28	Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.33	Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.34	Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant s 10-QSB for June 30, 2002, which is incorporated by this reference herein.
10.35	Letter Agreement, dated January 30, 2009 by and between Plumas Bancorp, Inc. and the United States Department of the Treasury and Securities Purchase Agreement Standard Terms attached thereto, is included as exhibit 10.1 to Registrant s 8-K filed on January 30, 2009, which is incorporated by this reference herein.
10.36	Form of Senior Executive Officer letter agreement, is included as exhibit 10.2 to Registrant s 8-K filed on January 30, 2009, which is incorporated by this reference herein.
10.37	Deferred Fee Agreement of Alvin Blickenstaff is included as Exhibit 10.37 to the Registrant s 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.40	2001 Stock Option Plan as amended is included as exhibit 99.1 of the Form S-8 filed July 23, 2002, File No. 333-96957, which is incorporated by this reference herein.
10.41	Form of Indemnification Agreement (Plumas Bancorp) is included as Exhibit 10.41 to the Registrant s 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.42	Form of Indemnification Agreement (Plumas Bank) is included as Exhibit 10.42 to the Registrant s 10-Q for March 31, 2009, which is incorporated by this reference herein.
10.43	Plumas Bank 401(k) Profit Sharing Plan as amended is included as exhibit 99.1 of the Form S-8 filed February 14, 2003, File No. 333-103229, which is incorporated by this reference herein.
10.44	Executive Salary Continuation Agreement of Robert T. Herr dated June 4, 2002, is included as Exhibit 10.44 to the Registrant s 10-Q for March 31, 2003, which is incorporated by this reference herein.
10.46	1991 Stock Option Plan as amended is included as Exhibit 10.46 to the Registrant s 10-Q for September 30, 2004, which is incorporated by this reference herein.
10.47	Specimen form of Incentive Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.47 to the Registrant s 10-Q for September 30, 2004, which is incorporated by this reference herein.

10.48	Specimen form of Non-Qualified Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.48 to the Registrant s 10-Q for September 30, 2004, which is incorporated by this reference herein.
10.49	Amended and Restated Plumas Bancorp Stock Option Plan is included as Exhibit 10.49 to the Registrant s 10-Q for September 30, 2006, which is incorporated by this reference herein.
10.50	Executive Salary Continuation Agreement of Rose Dembosz, is included as exhibit 10.50 to the Registrant s 10-K for December 31, 2008, which is incorporated by this reference herein.

10.51	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.

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 August 5, 2011.
31.2	Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated August 5, 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 August 5, 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 August 5, 2011.

Table of Contents

SIGNATURES

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

PLUMAS BANCORP
(Registrant)
Date: August 5, 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*