

PLUMAS BANCORP  
Form 10-Q  
August 08, 2008

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

**(Mark One)**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2008**

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

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

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

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

**95971**  
(Zip Code)

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

Indicated by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 4, 2008  
4,810,210 shares

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

(In thousands, except share data)

|  | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Cash and due from banks  | \$ 15,903                | \$ 13,207                    |
| Federal funds sold   |                          |                              |
| Cash and cash equivalents  | 15,903                   | 13,207                       |
| Investment securities (fair value of \$46,864 at June 30, 2008 and \$55,367 at December 31, 2007)  | 46,935                   | 55,292                       |
| Loans, less allowance for loan losses of \$4,455 at June 30, 2008 and \$4,211 at December 31, 2007 (Notes 3 and 4)                         | 352,502                  | 349,302                      |
| Premises and equipment, net  | 15,474                   | 14,666                       |
| Intangible assets, net   | 908                      | 1,037                        |
| Bank owned life insurance  | 9,594                    | 9,428                        |
| Real estate and vehicles acquired through foreclosure  | 2,425                    | 537                          |
| Accrued interest receivable and other assets   | 9,242                    | 9,646                        |
| Total assets   | \$ 452,983               | \$ 453,115                   |
| <b>Liabilities and Shareholders Equity</b>   |                          |                              |
| Deposits:  |                          |                              |
| Non-interest bearing   | \$ 114,625               | \$ 111,240                   |
| Interest bearing   | 260,404                  | 280,700                      |
| Total deposits   | 375,029                  | 391,940                      |
| Short-term borrowings  | 24,500                   | 7,500                        |
| Accrued interest payable and other liabilities   | 6,355                    | 6,226                        |
| Junior subordinated deferrable interest debentures   | 10,310                   | 10,310                       |
| Total liabilities  | 416,194                  | 415,976                      |
| Commitments and contingencies (Note 4)   |                          |                              |
| Shareholders equity (Notes 5, 7 and 10):   |                          |                              |
| Serial preferred stock, no par value; 10,000,000 shares authorized, none issued  |                          |                              |
| Common stock, no par value; 22,500,000 shares authorized; issued and outstanding 4,819,858 shares at June 30, 2008 and 4,869,130 shares at | 5,158                    | 5,042                        |

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December 31, 2007

|   |            |            |
|---|------------|------------|
| Retained earnings                             | 31,665     | 32,204     |
| Accumulated other comprehensive loss (Note 6) | (34)       | (107)      |
| Total shareholders' equity                    | 36,789     | 37,139     |
| Total liabilities and shareholders' equity    | \$ 452,983 | \$ 453,115 |

See notes to unaudited condensed consolidated financial statements.

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

(In thousands, except per share data)

|  | <b>For the Three Months</b> |              | <b>For the Six Months</b> |               |
|--|-----------------------------|--------------|---------------------------|---------------|
|  | <b>Ended June 30,</b>       |              | <b>Ended June 30,</b>     |               |
|  | <b>2008</b>                 | <b>2007</b>  | <b>2008</b>               | <b>2007</b>   |
| <b>Interest Income:</b>  |                             |              |                           |               |
| Interest and fees on loans                                     | \$ 5,966                    | \$ 7,105     | \$ 12,190                 | \$ 14,010     |
| Interest on investment securities:                             |                             |              |                           |               |
| Taxable  | 358                         | 447          | 769                       | 966           |
| Exempt from Federal income taxes                               | 128                         | 132          | 255                       | 266           |
| Interest on Federal funds sold                                 | 1                           | 5            | 2                         | 8             |
| <b>Total interest income</b>                                   | <b>6,453</b>                | <b>7,689</b> | <b>13,216</b>             | <b>15,250</b> |
| <b>Interest Expense:</b>                                       |                             |              |                           |               |
| Interest on deposits   | 1,124                       | 1,808        | 2,670                     | 3,484         |
| Interest on short-term borrowings                              | 61                          | 250          | 95                        | 436           |
| Interest on junior subordinated deferrable interest debentures | 138                         | 208          | 329                       | 414           |
| Other  | 6                           | 5            | 10                        | 11            |
| <b>Total interest expense</b>                                  | <b>1,329</b>                | <b>2,271</b> | <b>3,104</b>              | <b>4,345</b>  |
| Net interest income before provision for loan losses           | 5,124                       | 5,418        | 10,112                    | 10,905        |
| <b>Provision for Loan Losses</b>                               | <b>470</b>                  | <b>125</b>   | <b>990</b>                | <b>375</b>    |
| Net interest income after provision for loan losses            | 4,654                       | 5,293        | 9,122                     | 10,530        |
| <b>Non-Interest Income:</b>                                    |                             |              |                           |               |
| Service charges  | 969                         | 902          | 1,922                     | 1,757         |
| Earnings on Bank owned life insurance policies                 | 104                         | 104          | 207                       | 205           |
| Other  | 317                         | 289          | 587                       | 605           |
| <b>Total non-interest income</b>                               | <b>1,390</b>                | <b>1,295</b> | <b>2,716</b>              | <b>2,567</b>  |
| <b>Non-Interest Expenses:</b>                                  |                             |              |                           |               |
| Salaries and employee benefits                                 | 2,710                       | 2,640        | 5,466                     | 5,468         |
| Occupancy and equipment  | 975                         | 879          | 1,934                     | 1,789         |
| Other  | 1,293                       | 1,222        | 2,514                     | 2,492         |
| <b>Total non-interest expenses</b>                             | <b>4,978</b>                | <b>4,741</b> | <b>9,914</b>              | <b>9,749</b>  |
| Income before provision for income taxes                       | 1,066                       | 1,847        | 1,924                     | 3,348         |
| <b>Provision for Income Taxes</b>                              | <b>369</b>                  | <b>713</b>   | <b>651</b>                | <b>1,266</b>  |

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|                                     |    |      |    |       |    |       |    |       |
|-------------------------------------|----|------|----|-------|----|-------|----|-------|
| Net income                          | \$ | 697  | \$ | 1,134 | \$ | 1,273 | \$ | 2,082 |
| Basic earnings per share (Note 5)   | \$ | 0.14 | \$ | 0.23  | \$ | 0.26  | \$ | 0.42  |
| Diluted earnings per share (Note 5) | \$ | 0.14 | \$ | 0.23  | \$ | 0.26  | \$ | 0.41  |
| Cash dividends per share            | \$ | 0.16 | \$ | 0.15  | \$ | 0.16  | \$ | 0.15  |

See notes to unaudited condensed consolidated financial statements.

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

|   | <b>For the Six Months<br/>Ended June 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                                  | <b>2007</b> |
| <b>Cash Flows from Operating Activities:</b>  |  |             |
| Net income  | \$ 1,273                                     | \$ 2,082    |
| Adjustments to reconcile net income to net cash provided by operating activities:                           |  |             |
| Provision for loan losses   | 990  | 375         |
| Change in deferred loan origination costs/fees, net   | 164  | 197         |
| Depreciation and amortization   | 1,014  | 1,124       |
| Stock-based compensation expense  | 144  | 131         |
| Amortization of investment security premiums  | 32   | 96          |
| Accretion of investment security discounts  | (32)   | (33)        |
| Net loss on disposal/sale of premises and equipment   | 7  | 29          |
| Net loss (gain) on sale of vehicles owned   | 11   | (28)        |
| Earnings on Bank owned life insurance policies  | (166)  | (166)       |
| Write-down of other real estate to market value   | 39   |             |
| Decrease (increase) in accrued interest receivable and other assets   | 178  | (33)        |
| Decrease in accrued interest payable and other liabilities  | (291)  | (589)       |
| Net cash provided by operating activities   | 3,363  | 3,185       |
| <b>Cash Flows from Investing Activities:</b>  |  |             |
| Proceeds from matured and called available-for-sale investment securities                                   | 7,975  | 15,875      |
| Proceeds from matured and called held-to-maturity investment securities                                     |  | 26          |
| Purchases of available-for-sale investment securities   | (993)  |             |
| Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities | 1,499  | 1,526       |
| Net increase in loans   | (6,509)                                      | (3,750)     |
| Proceeds from sale of other vehicles  | 217  | 176         |
| Purchase of premises and equipment  | (1,526)                                      | (647)       |
| Net cash provided by investing activities   | 663  | 13,206      |

Continued on next page.



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

|  | <b>For the Six Months<br/>Ended June 30,</b> |                  |
|--|--|------------------|
|  | <b>2008</b>                                  | <b>2007</b>      |
| <b>Cash Flows from Financing Activities:</b>                             |  |                  |
| Net increase (decrease) in demand, interest bearing and savings deposits | \$ 3,154                                     | \$ (23,441)      |
| Net (decrease) increase in time deposits                                 | (20,065)                                     | 21,929           |
| Net increase (decrease) in short-term borrowings                         | 17,000                                       | (7,700)          |
| Net proceeds from exercise of stock options                              | 21   | 17               |
| Payment of cash dividends  | (770)  | (750)            |
| Repurchase and retirement of common stock                                | (670)  | (1,054)          |
| Net cash used in financing activities                                    | (1,330)                                      | (10,999)         |
| Increase in cash and cash equivalents                                    | 2,696  | 5,392            |
| <b>Cash and Cash Equivalents at Beginning of Year</b>                    | <b>13,207</b>                                | <b>11,293</b>    |
| <b>Cash and Cash Equivalents at End of Period</b>                        | <b>\$ 15,903</b>                             | <b>\$ 16,685</b> |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                 |  |                  |
| Cash paid during the period for:   |  |                  |
| Interest expense   | \$ 3,434                                     | \$ 4,026         |
| Income taxes   | \$ 975                                       | \$ 1,625         |
| <b>Non-Cash Investing Activities:</b>                                    |  |                  |
| Real estate and vehicles acquired through foreclosure                    | \$ 2,155                                     | \$ 340           |
| Net change in unrealized loss on available-for-sale securities           | \$ 73  | \$ 87            |
| <b>Non-Cash Financing Activities:</b>                                    |  |                  |
| Common stock retired in connection with the exercise of stock options    | \$   | \$ 49            |
| Cumulative effect of adopting EITF 06-04                                 | \$ 420                                       | \$               |
| See notes to unaudited condensed consolidated financial statements.      |  |                  |

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

**1. GENERAL**

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

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

**2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position at June 30, 2008 and December 31, 2007 and its results of operations for the three-month and six-month periods ended June 30, 2008 and 2007 and its cash flows for the six-month periods ended June 30, 2008 and 2007. Certain reclassifications have been made to prior periods' balances to conform to classifications used in 2008.

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 2007 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month and six-month periods ended June 30, 2008 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****3. LOANS**

Outstanding loans are summarized below, in thousands:

|   | <b>June 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|--------------------------|------------------------------|
| Commercial                                    | \$ 41,081                | \$ 39,584                    |
| Agricultural                                  | 36,311                   | 35,762                       |
| Real estate mortgage                          | 143,565                  | 128,357                      |
| Real estate construction and land development | 70,949                   | 76,478                       |
| Consumer                                      | 64,651                   | 72,768                       |
|   | 356,557                  | 352,949                      |
| Deferred loan costs, net                      | 400                      | 564                          |
| Allowance for loan losses                     | (4,455)                  | (4,211)                      |
|   | \$ 352,502               | \$ 349,302                   |

**4. COMMITMENTS AND CONTINGENCIES**

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

In the normal course of business, there are various outstanding commitments to extend credit, which are not reflected, in the financial statements, including loan commitments of \$80,287,000 and \$96,867,000 and stand-by letters of credit of \$2,678,000 and \$655,000 at June 30, 2008 and December 31, 2007, respectively.

Of the loan commitments outstanding at June 30, 2008, \$19,195,000 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, 2008 or December 31, 2007.

**Table of Contents****5. EARNINGS PER SHARE**

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

|  | For the Three Months |         | For the Six Months |         |
|--|----------------------|---------|--------------------|---------|
|  | Ended June 30,       |         | Ended June 30,     |         |
|  | 2008                 | 2007    | 2008               | 2007    |
| <b>Earnings Per Share:</b>               |                      |         |                    |         |
| Basic earnings per share                 | \$ 0.14              | \$ 0.23 | \$ 0.26            | \$ 0.42 |
| Diluted earnings per share               | \$ 0.14              | \$ 0.23 | \$ 0.26            | \$ 0.41 |
| <b>Weighted Average Number of Shares</b> |                      |         |                    |         |
| <b>Outstanding:</b>                      |                      |         |                    |         |
| (in thousands)                           |                      |         |                    |         |
| Basic shares                             | 4,822                | 4,984   | 4,841              | 4,998   |
| Diluted shares                           | 4,849                | 5,029   | 4,868              | 5,050   |

Stock options not included in the computation of diluted earnings per share, due to their antidilutive effect, were 359,000 and 230,000 for the three months ended June 30, 2008 and 2007, respectively and 335,000 and 150,000 for the six months ended June 30, 2008 and 2007, respectively.

**6. COMPREHENSIVE INCOME**

Total comprehensive income for the three months ended June 30, 2008 and 2007 totaled \$429,000 and \$1,073,000, respectively. Comprehensive income is comprised of unrealized losses, net of taxes, on available-for-sale investment securities, which were \$(268,000) and \$(61,000) for the three months ended June 30, 2008 and 2007, respectively, together with net income.

Total comprehensive income for the six months ended June 30, 2008 and 2007 totaled \$1,346,000 and \$2,169,000, respectively. Comprehensive income is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were \$73,000 and \$87,000 for the six months ended June 30, 2008 and 2007, respectively, together with net income.

At June 30, 2008 and December 31, 2007, accumulated other comprehensive loss, net of taxes, totaled \$34,000 and \$107,000, respectively, and is reflected as a component of shareholders' equity.

**7. STOCK-BASED COMPENSATION**

In 2001 and 1991, the Company established Stock Option Plans for which 883,461 shares of common stock remain reserved for issuance to employees and directors and 401,459 shares are available for future grants under incentive and nonstatutory agreements as of June 30, 2008. The Company granted 90,300 and 155,700 options during the six months ended June 30, 2008 and 2007 respectively. The weighted average grant date fair value of options granted for the six months ended June 30, 2008 and 2007 was \$2.54 and \$4.53, respectively.

Compensation cost related to stock options recognized in operating results under SFAS No. 123R was \$75,000 and \$78,000 for the quarters ended June 30, 2008 and 2007, respectively. The associated future income tax benefit recognized was \$6,000 for the quarters ended June 30, 2008 and 2007. Compensation cost related to stock options recognized in operating results under SFAS No. 123R was \$144,000 and \$131,000 in the six months ended June 30, 2008 and 2007, respectively. Compensation expense is recognized over the vesting period of the stock options on a straight-line basis. The associated future income tax benefit recognized was \$12,000 for both of the six months ended June 30, 2008 and 2007.

In accordance with SFAS 123 (R) the Company has presented excess tax benefits from the exercise of stock-based compensation awards as a financing activity in the consolidated statement of cash flows.



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The following table summarizes information about stock option activity for the six months ended June 30, 2008:

|  |               | <b>Weighted<br/>Average</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual</b> | <b>Intrinsic<br/>Value</b> |
|--|---------------|-----------------------------|---|----------------------------|
|  | <b>Shares</b> | <b>Exercise<br/>Price</b>   | <b>Term<br/>(in years)</b>                                | <b>(in thousands)</b>      |
| Options outstanding at December 31, 2007 | 395,772       | \$ 13.37                    |   |                            |
| Options granted                          | 90,300        | 12.40                       |   |                            |
| Options exercised                        | (3,200)       | 6.59                        |   |                            |
| Options cancelled                        | (870)         | 15.59                       |   |                            |
| Options outstanding at June 30, 2008     | 482,002       | \$ 13.23                    | 6.0   | \$ 152                     |
| Options exercisable at June 30, 2008     | 243,411       | \$ 11.96                    | 5.1   | \$ 152                     |
| Expected to vest after June 30, 2008     | 238,591       | \$ 14.53                    | 7.0   | \$                         |

The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the six months ended June 30, 2008 was \$18,000. During the six months ended June 30, 2008, the amount of cash received from the exercise of stock options was \$21,000.

At June 30, 2008, there was \$702,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 2.7 years. The total fair value of options vested during the six months ended June 30, 2008 was \$172,000.

**8. INCOME TAXES**

The Company files its income taxes on a consolidated basis with its subsidiaries. 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 amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the condensed 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 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 condensed consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense in the condensed consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the six months ended June 30, 2008.



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On January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. There was no cumulative effect adjustment to beginning retained earnings recorded upon adoption and no impact on the financial statements in the first six months of 2008.

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, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value based on the hierarchy:

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

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

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

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

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

|                               |               | Fair Value Measurements at June 30, 2008 Using<br>Quoted Prices<br>in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) |           |    | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------|---------------|--|-----------|----|--|--|
| <i>(in 000 s)</i>             | June 30, 2008 |  |           |    |  |  |
| Assets:                       |               |  |           |    |  |  |
| Available-for-sale securities | \$ 33,449     | \$ 20,156  | \$ 13,293 | \$ |  |  |

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. Changes in fair market value are recorded in other comprehensive income.

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

|                   |               | Fair Value Measurements at June 30, 2008 Using<br>Quoted Prices<br>in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) |  |  | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------|---------------|--|--|--|--|--|
| <i>(in 000 s)</i> | June 30, 2008 |  |  |  |  |  |



Assets:

|                |    |       |    |    |       |    |
|----------------|----|-------|----|----|-------|----|
| Impaired loans | \$ | 1,659 | \$ | \$ | 1,659 | \$ |
|----------------|----|-------|----|----|-------|----|

Impaired loans, all of which are measured for impairment using the fair value of the collateral as they are collateral dependent loans, had a principal balance of \$1,870,000 with a related valuation allowance of \$211,000 at June 30, 2008. Declines in the collateral values of impaired loans during the first six months of 2008 were \$134,000 which was reflected as additional specific allocations of the allowance for loan losses.

**10. STOCK REPURCHASE**

In connection with the Company's stock repurchase plan for the year ending December 31, 2008, a total of 52,472 shares were repurchased during the six months ended June 30, 2008 at an average price of \$12.77 per share. Management of the Company is authorized to repurchase an additional 191,528 shares; however, the Board of Directors may suspend, terminate or modify the repurchase plan at any time.

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

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

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

**INTRODUCTION**

The following discussion and analysis sets forth certain statistical information relating to the Company as of June 30, 2008 and December 31, 2007 and for the three and six month periods ended June 30, 2008 and 2007. 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, 2007.

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

**CASH DIVIDEND**

On April 16, 2008, the Company declared a semi-annual common stock cash dividend of \$0.16 per share. This represents a 7% increase in the semi-annual cash dividend per share from 15 cents paid on May 14, 2007. The dividend was paid on May 16, 2008 to its shareholders of record on April 30, 2008.

**CRITICAL ACCOUNTING POLICIES**

There have been no changes to the Company's critical accounting policies from those disclosed in the Company's 2007 Annual Report to Shareholders on Form 10-K.

**OVERVIEW**

The Company's net income declined by \$809 thousand, or 39%, to \$1.27 million for the six months ended June 30, 2008 from \$2.08 million for the same period in 2007. This decline in net income resulted from a decline in net interest income of \$793 thousand and an increase in the provision for loan losses of \$615 thousand. An increase of \$165 thousand in non-interest expense was mostly offset by an increase of \$149 thousand in non-interest income. Related to the reduction in pre-tax earnings the provision for income taxes declined by \$615 thousand.

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Total assets remained consistent at \$453 million at both December 31, 2007 and June 30, 2008. Net loans increased by \$3.2 million from \$349.3 million at December 31, 2007 to \$352.5 million at June 30, 2008. Investment securities declined by \$8.4 million from \$55.3 million at December 31, 2007 to \$46.9 million at June 30, 2008. This decline in investment securities was offset by an increase in cash of \$2.7 million, an increase in real estate and vehicles acquired through foreclosure of \$1.9 million and provided funding for the \$3.2 million increase in loans. Short-term borrowings increased by \$17 million from \$7.5 million at December 31, 2007 to \$24.5 million at June 30, 2008. The increase in short-term borrowings offset a decrease in deposits of \$16.9 million from \$391.9 million at December 31, 2007 to \$375.0 million at June 30, 2008. Total shareholders' equity decreased slightly from \$37.1 million at December 31, 2007 to \$36.8 million at June 30, 2008.

The annualized return on average assets was 0.57% for the six months ended June 30, 2008 down from 0.90% for the same period in 2007. The annualized return on average equity was 6.9% for the six months ended June 30, 2008 down from 11.5% for the same period in 2007.

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2008**

**Net interest income before provision for loan losses.** Net interest income, on a nontax-equivalent basis, for the six months ended June 30, 2008 was \$10.1 million, a decline of \$793 thousand from the \$10.9 million earned during the same period in 2007. Decreases in the yields and the average level of the Company's loan portfolio along with a reduction in the average balance of investment securities were partially offset by declines in the average balances and rates paid on deposits and short-term borrowings and a decline in the rate paid on junior subordinated debentures.

Interest income declined by \$2.0 million, or 13%, to \$13.2 million for the six months ended June 30, 2008. Interest and fees on loans decreased by \$1.8 million from \$14.0 million for the six months ended June 30, 2007 to \$12.2 million during the current six-month period. The Company's average loan balances were \$351.5 million for the six months ended June 30, 2008, down \$5.5 million, or 2%, from the \$357.0 million for the same period in 2007. The average rate earned on the Company's loan balances decreased 93 basis points to 6.98% during the first six months of 2008 from 7.91% during the first six months of 2007. During this same period the average prime rate declined by 260 basis points. The decline in prime rate is reflective of the 325 basis point reduction made by the Federal Reserve Board since September 2007. At June 30, 2008 approximately 66% of the Company's loan portfolio was variable rate of which approximately 37% is indexed to the prime interest rate.

Interest on investment securities decreased by \$208 thousand, as an increase in yield of 31 basis points was offset by a decline in average investment securities of \$15.5 million. The decrease in the overall investment portfolio resulted from maturities, calls and pay downs that were used to provide funding for loan growth and liquidity.

Interest expense decreased \$1.2 million, or 29%, to \$3.1 million for the six months ended June 30, 2008, down from \$4.3 million for the same period in 2007, due to the decrease in both the rates paid on our interest bearing liabilities and in the average balances. Average interest bearing liabilities declined by \$19.6 million from \$314.7 million during the six months ended June 30, 2007 to \$295.1 million during the current period. Average interest bearing deposits declined by \$10.9 million and average short-term borrowings declined by \$8.7 million over the same periods.

Interest expense on deposits declined by \$814 thousand primarily related to the decline of \$390 thousand in interest expense on NOW accounts and the \$297 thousand decline in time deposit interest expense. In addition, interest on money market and savings accounts declined by \$127 thousand. The average rate paid on the Company's interest bearing deposits declined 50 basis points from 2.44% for the six months ended June 30, 2007 to 1.94% during the current six month period. The average balance of interest bearing deposits declined by \$10.9 million from \$287.8 million during the six months ended June 30, 2007 to \$276.9 million during the six months ended June 30, 2008.

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The decline in NOW account interest expense was primarily related to a reduction in the rate paid on our Money Fund Plus\$ balances and is consistent with recent declines in market interest rates. Money Fund Plus\$ is an interest bearing checking account designed to pay rates comparable to those available on a typical brokerage account. The average balance of NOW accounts declined by \$4.0 million from \$78.5 million during the six months ended June 30, 2007 to \$74.5 million during the current six-month period.

Average time deposits totaled \$118.9 million during the first six months of 2008, up \$4.0 million from \$114.9 million during the six months ended June 30, 2007. The average rate paid on time deposits decreased 65 basis points from 4.25% during the six months ended June 30, 2007 to 3.60% during the same period in 2008.

During 2007 the Company offered a promotional short-term time deposit product which we continued offering until February of 2008. At June 30, 2008 almost all of these promotional short-term time deposits have matured. The decline in the rate paid on time deposits includes the maturity of the promotional time deposit product, some of which have been renewed at lower rates, and a decline in rates paid on new and renewed time deposits.

Interest expense on short-term borrowings decreased by \$341 thousand from \$436 thousand during the 2007 period to \$95 thousand for the six months ended June 30, 2008. This decline resulted from a decrease in the average balance outstanding of \$8.7 million and a decline in the rate paid on these borrowings of 289 basis points. The average rate paid on the Company's trust preferred securities (junior subordinated debentures) decreased 168 basis points to 6.42% for the six months ended June 30, 2008 from 8.10% during the same period in 2007. The rate on the trust preferred securities is tied to the LIBOR rate and will fluctuate with changes in LIBOR; however the rate resets quarterly so the effect of recent declines in LIBOR were not fully reflected in the rate paid during the six months ended June 30, 2008. As a result of the changes noted above, the net interest margin for the six months ended June 30, 2008 decreased 14 basis points to 5.05%, down from 5.19% for the same period in 2007.

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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,<br>2008 |                               |                | For the Six Months Ended June 30,<br>2007 |                               |                |
|--------------------------------------|---|-------------------------------|----------------|---|-------------------------------|----------------|
|                                      | Average<br>Balance<br>(in<br>thousands)   | Interest<br>(in<br>thousands) | Yield/<br>Rate | Average<br>Balance<br>(in<br>thousands)   | Interest<br>(in<br>thousands) | Yield/<br>Rate |
| <b>Interest-earning assets:</b>      |   |                               |                |   |                               |                |
| Loans (1) (2)                        | \$ 351,450                                | \$ 12,190                     | 6.98%          | \$ 356,958                                | \$ 14,010                     | 7.91%          |
| Investment securities (1)            | 50,779                                    | 1,024                         | 4.06%          | 66,310                                    | 1,232                         | 3.75%          |
| Federal funds sold                   | 164                                       | 2                             | 2.45%          | 254                                       | 8                             | 6.35%          |
| Total interest-earning assets        | 402,393                                   | 13,216                        | 6.60%          | 423,522                                   | 15,250                        | 7.26%          |
| Cash and due from banks              | 11,947                                    |                               |                | 12,653                                    |                               |                |
| Other assets                         | 31,842                                    |                               |                | 32,440                                    |                               |                |
| Total assets                         | \$ 446,182                                |                               |                | \$ 468,615                                |                               |                |
| <b>Interest-bearing liabilities:</b> |   |                               |                |   |                               |                |
| NOW deposits                         | \$ 74,518                                 | 323                           | 0.87%          | \$ 78,522                                 | 713                           | 1.83%          |
| Money market deposits                | 36,037                                    | 137                           | 0.76%          | 42,010                                    | 198                           | 0.95%          |
| Savings deposits                     | 47,404                                    | 83                            | 0.35%          | 52,327                                    | 149                           | 0.57%          |
| Time deposits                        | 118,912                                   | 2,127                         | 3.60%          | 114,890                                   | 2,424                         | 4.25%          |
| Total deposits                       | 276,871                                   | 2,670                         | 1.94%          | 287,749                                   | 3,484                         | 2.44%          |
| Short-term borrowings                | 7,633                                     | 95                            | 2.50%          | 16,324                                    | 436                           | 5.39%          |
| Other interest-bearing liabilities   | 309                                       | 10                            | 6.51%          | 301                                       | 11                            | 7.36%          |
| Junior subordinated debentures       | 10,310                                    | 329                           | 6.42%          | 10,310                                    | 414                           | 8.10%          |
| Total interest-bearing liabilities   | 295,123                                   | 3,104                         | 2.12%          | 314,684                                   | 4,345                         | 2.78%          |
| Non-interest bearing deposits        | 108,142                                   |                               |                | 112,658                                   |                               |                |
| Other liabilities                    | 5,570                                     |                               |                | 4,669                                     |                               |                |
| Shareholders' equity                 | 37,347                                    |                               |                | 36,604                                    |                               |                |

|   |            |       |            |       |
|---|------------|-------|------------|-------|
| Total liabilities & equity                  | \$ 446,182 |       | \$ 468,615 |       |
| Cost of funding interest-earning assets (3) |            | 1.55% |            | 2.07% |
| Net interest income and margin (4)          | \$ 10,112  | 5.05% | \$ 10,905  | 5.19% |

- (1) Not computed on a tax-equivalent basis.
- (2) Net loan costs included in loan interest income for the six-month periods ended June 30, 2008 and 2007 were \$151 thousand and \$254 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.

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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:

**2008 over 2007 change in net interest income  
for the six months ended June 30  
(in thousands)**

|                                      | Volume (1) | Rate (2)   | Mix (3)  | Total      |
|--------------------------------------|------------|------------|----------|------------|
| <b>Interest-earning assets:</b>      |            |            |          |            |
| Loans                                | \$ (217)   | \$ (1,668) | \$ 65    | \$ (1,820) |
| Investment securities                | (289)      | 102        | (21)     | (208)      |
| Federal funds sold                   | (3)        | (5)        | 2        | (6)        |
| Total interest income                | (509)      | (1,571)    | 46       | (2,034)    |
| <b>Interest-bearing liabilities:</b> |            |            |          |            |
| NOW deposits                         | (36)       | (375)      | 21       | (390)      |
| Money market deposits                | (28)       | (39)       | 6        | (61)       |
| Savings deposits                     | (14)       | (58)       | 6        | (66)       |
| Time deposits                        | 85         | (376)      | (6)      | (297)      |
| Short-term borrowings                | (233)      | (234)      | 126      | (341)      |
| Other interest-bearing liabilities   |            | (1)        |          | (1)        |
| Junior subordinated debentures       |            | (85)       |          | (85)       |
| Total interest expense               | (226)      | (1,168)    | 153      | (1,241)    |
| Net interest income                  | \$ (283)   | \$ (403)   | \$ (107) | \$ (793)   |

(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.** In response to an increase in the level of net loan charge-offs and our evaluation of the adequacy of the allowance for loan losses in the current economic environment, particularly related to the decline in real estate values, the Company increased its loan loss provision from \$375 thousand during the first six months of 2007 to \$990 thousand during the current six-month period. Management assesses its loan quality monthly to maintain an adequate allowance for loan losses. Based on information currently available, management believes that the allowance for loan losses is adequate to absorb probable losses in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period. The Company's loan portfolio composition and non-performing assets are further discussed under the financial condition section below.

**Non-interest income.** During the six months ended June 30, 2008, total non-interest income increased \$149 thousand, or 6%, to \$2.7 million, up from \$2.6 million for the comparable period in 2007. The largest component of this increase was a \$165 thousand increase in service charges on deposit accounts resulting from a change in fee structure instituted during mid 2007. Related to the expansion of our SBA lending activities; gains on the sale of loans increased by \$52 thousand to \$79 thousand for the six months ended June 30, 2008. Partially offsetting these increases was a decline of \$39 thousand in the gain recorded on the sale of repossessed vehicles from \$28 thousand during the first half of 2007 to a loss of \$11 thousand during the six months ended June 30, 2008.



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The following table describes the components of non-interest income for the six-month periods ending June 30, 2008 and 2007, dollars in thousands:

|  | For the Six Months<br>Ended June 30, |                 | Dollar<br>Change | Percentage<br>Change |
|--|--------------------------------------|-----------------|------------------|----------------------|
|  | 2008                                 | 2007            |                  |                      |
| Service charges on deposit accounts          | \$ 1,922                             | \$ 1,757        | \$ 165           | 9.4%                 |
| Earnings on life insurance policies          | 207                                  | 206             | 1                | 0.5%                 |
| Merchant processing income                   | 125                                  | 127             | (2)              | -1.6%                |
| Gain on sale of loans                        | 79                                   | 27              | 52               | 192.6%               |
| Investment services income                   | 78                                   | 85              | (7)              | -8.2%                |
| Official check fees                          | 63                                   | 80              | (17)             | -21.3%               |
| Customer service fees                        | 57                                   | 60              | (3)              | -5.0%                |
| Federal Home Loan Bank dividends             | 57                                   | 56              | 1                | 1.8%                 |
| Loan servicing fees                          | 41                                   | 60              | (19)             | -31.7%               |
| Safe deposit box and night depository income | 34                                   | 35              | (1)              | -2.9%                |
| Other deposit account fees                   | 17                                   | 21              | (4)              | -19.0%               |
| Printed check fee income                     | 15                                   | 21              | (6)              | -28.6%               |
| (Loss) gain on sale of vehicles              | (11)                                 | 28              | (39)             | -139.3%              |
| Other  | 32                                   | 4               | 28               | 700.0%               |
| <b>Total non-interest income</b>             | <b>\$ 2,716</b>                      | <b>\$ 2,567</b> | <b>\$ 149</b>    | <b>5.8%</b>          |

**Non-interest expenses.** During the six months ended June 30, 2008, total non-interest expenses increased \$165 thousand, or 2%, to \$9.9 million, up from \$9.7 million for the comparable period in 2007. The increase in non-interest expense was primarily the result of increases in occupancy and equipment expense, loan collection expenses and FDIC insurance premiums.

Additions to salary expense totaling \$253 thousand related to expansion of our SBA lending activities, growth in our Reno loan production office and increases in staffing at our Redding branch were offset by decreases in salaries in other departments and an \$80 thousand decrease in bonus expense resulting in virtually identical levels of salaries and related benefits during the comparison periods.

The largest increase in non-interest expense was a \$145 thousand increase in occupancy and equipment costs primarily related to an increase in software related costs and an increase in occupancy costs at our Redding branch. Occupancy costs related to our Redding branch were abnormally high during the 2008 period which included costs of both a temporary facility and our permanent branch which opened in July, 2008. Consistent with the increase in nonperforming assets during the period (See page 23) loan collection expense, which includes costs related to acquiring and maintaining real estate acquired through foreclosure, increased by \$78 thousand from \$87 thousand during the six months ended June 30, 2007 to \$165 thousand during the current period. Other expense increased by \$90 thousand related to an increase in FDIC insurance premiums. During 2007 the Company was able to use its remaining credit balance with the FDIC to offset insurance premium billings. By the end of the first quarter of 2008 the credit balance had been fully utilized. A \$32 thousand increase in insurance expense is primarily related to recognizing certain postretirement insurance costs for split dollar life insurance policies.

Partially offsetting the above increases in non-interest expense was a decline of \$82 thousand in professional fees and declines in business development and advertising costs totaling \$100 thousand. During the 2007 period professional fees included consulting costs associated with an outside evaluation of our core banking software requirements, other technology planning costs and costs associated with a strategic planning initiative. Similar costs were not incurred during the 2008 period. The savings in business development and advertising costs include reductions in our marketing budget, savings in promotional materials, and a decrease in seminar and conference costs.



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The following table describes the components of non-interest expense for the six-month periods ending June 30, 2008 and 2007, dollars in thousands:

|                                       | For the Six Months<br>Ended June 30, |          | Dollar<br>Change | Percentage<br>Change |
|---------------------------------------|--------------------------------------|----------|------------------|----------------------|
|                                       | 2008                                 | 2007     |                  |                      |
| Salaries and employee benefits        | \$ 5,466                             | \$ 5,468 | \$ (2)           | %                    |
| Occupancy and equipment               | 1,934                                | 1,789    | 145              | 8.1%                 |
| Outside service fees                  | 348                                  | 324      | 24               | 7.4%                 |
| Professional fees                     | 307                                  | 389      | (82)             | -21.1%               |
| Business development                  | 237                                  | 286      | (49)             | -17.1%               |
| Advertising and shareholder relations | 227                                  | 278      | (51)             | -18.3%               |
| Telephone and data communication      | 198                                  | 169      | 29               | 17.2%                |
| Director compensation                 | 175                                  | 174      | 1                | 0.6%                 |
| Loan and collection expenses          | 165                                  | 87       | 78               | 89.7%                |
| Armored car and courier               | 142                                  | 134      | 8                | 6.0%                 |
| Deposit premium amortization          | 129                                  | 150      | (21)             | -14.0%               |
| Postage                               | 120                                  | 121      | (1)              | -0.8%                |
| Stationery and supplies               | 116                                  | 152      | (36)             | -23.7%               |
| Insurance                             | 116                                  | 84       | 32               | 38.1%                |
| Other                                 | 234                                  | 144      | 90               | 62.5%                |
| Total non-interest expense            | \$ 9,914                             | \$ 9,749 | \$ 165           | 1.7%                 |

**Provision for income taxes.** The provision for income taxes was \$651 thousand, or 33.8% of pre-tax income for the six months ended June 30, 2008. This compares to \$1.3 million or 37.8% of pre-tax income during the first half of 2007. The decrease of 4.0% reflects the effect of an increase, during 2008, in the percentage of tax-exempt income as a percentage of pre-tax income.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2008**

**Net Income.** Net income decreased by \$437 thousand, or 39% from \$1.1 million during the second quarter of 2007 to \$697 thousand during the second three months ended June 30, 2008. This decrease in net income resulted from a \$294 thousand decline in net interest income, a \$345 thousand increase in the provision for loan losses, and a \$237 increase in non-interest expense, partially offset by a \$95 thousand increase in non-interest income and a \$344 thousand decrease in the provision for income taxes.

**Net interest income before provision for loan losses.** Net interest income, on a nontax-equivalent basis, was \$5.1 million for the three months ended June 30, 2008, a decrease of \$294 thousand, or 5%, from \$5.4 million for the same period in 2007. The decline in net interest income was related to decreases in the yields and the level of the average loans outstanding along with a reduction in the average balance of investment securities which were mostly offset by a decline in the average balance and rate paid on deposit accounts and short-term borrowings and a decline in the rate paid on junior subordinated debentures.

Interest and fees on loans decreased by \$1.1 million from \$7.1 million for the three months ended June 30, 2007 to \$6.0 million during the 2008 second quarter. The Company's average loan balances were \$351.7 million for the three months ended June 30, 2008, down \$8.5 million, or 2%, from the \$360.2 million for the same period in 2007. The average yield earned on loans decreased by 109 basis points from 7.91% during the second quarter of 2007 to 6.82% during the 2008 quarter. This decrease in yield primarily is reflective of the declines in market interest rates. During this same period the average prime interest rate declined by 317 basis points. At June 30, 2008 approximately 37% of Plumas Bank's loans adjust with changes in the prime interest rate.



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A 28 basis points increase in yield on investment securities was offset by a decrease of \$13.5 million in the average balance outstanding resulting in a decrease of \$93 thousand in interest earned on investment securities.

Interest expense decreased by \$942 thousand, or 41%, to \$1.3 million for the three months ended June 30, 2008, down from \$2.3 million for the same period in 2007. Average interest bearing deposits declined by \$16.3 million from \$288.3 million during the second quarter of 2007 to \$272.0 million during the current quarter. Primarily as a result of the maturity of promotional time deposits, average time deposits declined by \$7.6 million from \$120.1 million during the second quarter of 2007 to \$112.5 million during the current quarter. Other categories of deposits declined as well including a \$1.7 million decline in average NOW accounts, and a \$7.0 million decline in average money market and savings accounts.

During 2008, the Company benefited from a reduction in market interest rates and, in the case of time deposits, the maturity of its short-term promotional time deposit product. Plumas Bank has decreased the rate paid on its interest bearing accounts resulting in a significant decline in deposit interest expense. The average rate paid on interest bearing deposits declined by 86 basis points from 2.52% during the three months ended June 30, 2007 to 1.66% during the current three month period. Related to a decline in the rate paid on our Money Fund Plu\$ accounts, the average rate paid on NOW accounts has declined by 106 basis points from 1.78% during the second quarter of 2007 to 0.72% during the current quarter. The Company has also decreased the rates paid on money market, savings deposits and new and renewed time deposits. The average rate paid on time deposits declined by 119 basis points from 4.34% during the three months ended June 30, 2007 to 3.15% during the second quarter of 2008.

The average balance of short-term borrowings decreased from \$18.6 million during the second quarter of 2007 to \$11.2 million during the three months ended June 30, 2008. The average rate paid on these borrowings decreased by 321 basis points to 2.19% during the quarter ended June 30, 2008, down from 5.40% during the second quarter of 2007. The average rate paid on junior subordinated debentures declined by 271 basis points from 8.09% during the three months ended June 30, 2007 to 5.38% during the current quarter.

As a result of the changes noted above, the net interest margin for the three months ended June 30, 2008 increased slightly to 5.15%. This compares to a net interest margin of 5.14% for the same period in 2007.

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

|                                      | For the Three Months Ended June 30,<br>2008 |                               |                | For the Three Months Ended June 30,<br>2007 |                               |                |
|--------------------------------------|---|-------------------------------|----------------|---|-------------------------------|----------------|
|                                      | Average<br>Balance<br>(in<br>thousands)     | Interest<br>(in<br>thousands) | Yield/<br>Rate | Average<br>Balance<br>(in<br>thousands)     | Interest<br>(in<br>thousands) | Yield/<br>Rate |
| <b>Interest-earning assets:</b>      |   |                               |                |   |                               |                |
| Loans (1) (2)                        | \$ 351,679                                  | \$ 5,966                      | 6.82%          | \$ 360,240                                  | \$ 7,105                      | 7.91%          |
| Investment securities (1)            | 48,471                                      | 486                           | 4.03%          | 61,968                                      | 579                           | 3.75%          |
| Federal funds sold                   | 150   | 1                             | 2.68%          | 332   | 5                             | 6.04%          |
| Total interest-earning assets        | 400,300                                     | 6,453                         | 6.48%          | 422,540                                     | 7,689                         | 7.30%          |
| Cash and due from banks              | 12,179                                      |                               |                | 12,709                                      |                               |                |
| Other assets                         | 32,016                                      |                               |                | 32,267                                      |                               |                |
| Total assets                         | \$ 444,495                                  |                               |                | \$ 467,516                                  |                               |                |
| <b>Interest-bearing liabilities:</b> |   |                               |                |   |                               |                |
| NOW deposits                         | \$ 75,759                                   | 136                           | 0.72%          | \$ 77,457                                   | 343                           | 1.78%          |
| Money market deposits                | 35,544                                      | 68                            | 0.77%          | 39,483                                      | 92                            | 0.93%          |
| Savings deposits                     | 48,130                                      | 40                            | 0.33%          | 51,180                                      | 72                            | 0.56%          |
| Time deposits                        | 112,521                                     | 880                           | 3.15%          | 120,156                                     | 1,301                         | 4.34%          |
| Total deposits                       | 271,954                                     | 1,124                         | 1.66%          | 288,276                                     | 1,808                         | 2.52%          |
| Short-term borrowings                | 11,209                                      | 61                            | 2.19%          | 18,570                                      | 250                           | 5.40%          |
| Other interest-bearing liabilities   | 309   | 6                             | 7.81%          | 302   | 5                             | 6.64%          |
| Junior subordinated debentures       | 10,310                                      | 138                           | 5.38%          | 10,310                                      | 208                           | 8.09%          |
| Total interest-bearing liabilities   | 293,782                                     | 1,329                         | 1.82%          | 317,458                                     | 2,271                         | 2.87%          |
| Non-interest bearing deposits        | 108,094                                     |                               |                | 109,072                                     |                               |                |
| Other liabilities                    | 5,400                                       |                               |                | 4,360                                       |                               |                |
| Shareholders' equity                 | 37,219                                      |                               |                | 36,626                                      |                               |                |

|   |            |       |            |       |
|---|------------|-------|------------|-------|
| Total liabilities & equity                  | \$ 444,495 |       | \$ 467,516 |       |
| Cost of funding interest-earning assets (3) |            | 1.33% |            | 2.16% |
| Net interest income and margin (4)          | \$ 5,124   | 5.15% | \$ 5,418   | 5.14% |

- (1) Not computed on a tax-equivalent basis.
- (2) Net loan costs included in loan interest income for the three-month periods ended June 30, 2008 and 2007 were \$74 thousand and \$107 thousand, respectively.
- (3) Total interest expense divided by the average balance of total earning assets.
- (4) Net interest income divided by the average balance of total earning assets.

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

**2008 over 2007 change in net interest income  
for the three months ended June 30  
(in thousands)**

|                                      | Volume (1) | Rate (2) | Mix (3) | Total      |
|--------------------------------------|------------|----------|---------|------------|
| <b>Interest-earning assets:</b>      |            |          |         |            |
| Loans                                | \$ (169)   | \$ (974) | \$ 4    | \$ (1,139) |
| Investment securities                | (126)      | 44       | (11)    | (93)       |
| Federal funds sold                   | (3)        | (3)      | 2       | (4)        |
| Total interest income                | (298)      | (933)    | (5)     | (1,236)    |
| <b>Interest-bearing liabilities:</b> |            |          |         |            |
| NOW deposits                         | (8)        | (203)    | 4       | (207)      |
| Money market deposits                | (9)        | (16)     | 1       | (24)       |
| Savings deposits                     | (4)        | (29)     | 1       | (32)       |
| Time deposits                        | (82)       | (358)    | 19      | (421)      |
| Short-term borrowings                | (99)       | (148)    | 58      | (189)      |
| Other interest-bearing liabilities   |            | 1        |         | 1          |
| Junior subordinated debentures       |            | (70)     |         | (70)       |
| Total interest expense               | (202)      | (823)    | 83      | (942)      |
| Net interest income                  | \$ (96)    | \$ (110) | \$ (88) | \$ (294)   |

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

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



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

**Provision for loan losses.** In response to an increase in the level of net loan charge-offs and our evaluation of the adequacy of the allowance for loan losses in the current economic environment, particularly related to the decline in real estate values, we increased our provision for loan losses. The Company recorded \$470 thousand in provision for loan losses for the three months ended June 30, 2008 compared to the \$125 thousand for the three months ended June 30, 2007. Management assesses its loan quality monthly to maintain an adequate allowance for loan losses. Based on information currently available, management believes that the allowance for loan losses is adequate to absorb 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. The Company's loan portfolio composition and non-performing assets are further discussed under the financial condition section below.

**Non-interest income.** During the three months ended June 30, 2008, total non-interest income increased by \$95 thousand from the same period in 2007. Service charge income increased by \$67 thousand resulting from a change in fee structure instituted during mid 2007. Related to the expansion of our SBA lending activities; gains on the sale of loans totaled \$61 thousand during the second quarter of 2008. There were no loan sales during the three months ended June 30, 2007. Partially offsetting these increases in non-interest income was a decline of \$19 thousand in the gain recorded on the sale of repossessed vehicles from \$8 thousand during 2007 to a loss of \$11 thousand during the three months ended June 30, 2008.

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The following table describes the components of non-interest income for the three-month periods ending June 30, 2008 and 2007, dollars in thousands:

|  | For the Three Months<br>Ended June 30, |                 | Dollar<br>Change | Percentage<br>Change |
|--|--|-----------------|------------------|----------------------|
|  | 2008                                   | 2007            |                  |                      |
| Service charges on deposit accounts          | \$ 969                                 | \$ 902          | \$ 67            | 7.4%                 |
| Earnings on life insurance policies          | 104                                    | 104             |                  | %                    |
| Merchant processing income                   | 62                                     | 67              | (5)              | -7.5%                |
| Gain on sale of loans                        | 61                                     |                 | 61               | %                    |
| Investment services income                   | 43                                     | 33              | 10               | 30.3%                |
| Federal Home Loan Bank dividends             | 29                                     | 25              | 4                | 16.0%                |
| Customer service fees                        | 28                                     | 30              | (2)              | -6.7%                |
| Official check fees                          | 25                                     | 39              | (14)             | -35.9%               |
| Loan servicing fees                          | 20                                     | 35              | (15)             | -42.9%               |
| Safe deposit box and night depository income | 17                                     | 17              |                  | %                    |
| Other deposit account fees                   | 8                                      | 10              | (2)              | -20.0%               |
| Printed check fee income                     | 4                                      | 6               | (2)              | -33.3%               |
| (Loss) gain on sale of vehicles              | (11)                                   | 8               | (19)             | -237.5%              |
| Other  | 31                                     | 19              | 12               | 63.2%                |
| <b>Total non-interest income</b>             | <b>\$ 1,390</b>                        | <b>\$ 1,295</b> | <b>\$ 95</b>     | <b>7.3%</b>          |

**Non-interest expenses.** During the three months ended June 30, 2008, total non-interest expenses increased \$237 thousand, or 5%, to \$5.0 million, up from \$4.7 million for the comparable period in 2007. The increase in non-interest expense was primarily the result of increases in salaries, occupancy and equipment expense, loan collection expenses and FDIC insurance premiums.

Additions to salary expense totaling \$147 thousand were related to expansion of our SBA lending activities, growth in our Reno loan production office and increases in staffing at our Redding branch. These costs were partially offset by an increase in the deferral of loan origination costs and a reduction in staffing in other areas.

Occupancy and equipment expense increased by \$96 thousand of which \$82 thousand is related to our Redding branch. Occupancy costs related to the Redding branch were abnormally high during the 2008 period which included costs of both a temporary facility and our permanent branch which opened in July, 2008. Consistent with the increase in nonperforming assets during the period (See page 23) loan collection expense increased by \$56 thousand from \$43 thousand during the three months ended June 30, 2007 to \$99 thousand during the current period. Other expense increased by \$111 thousand primarily related to an increase in FDIC insurance premiums. During 2007 the Company was able to use its remaining credit balance with the FDIC to offset insurance premium billings. By the end of the first quarter of 2008 the credit balance had been fully utilized. A \$30 thousand increase in telephone and data communication expense was primarily related to credits utilized to reduce expense during the 2007 period.

Partially offsetting the above increases in non-interest expense was a decline of \$38 thousand in professional fees and declines in business development and advertising costs totaling \$81 thousand. During the 2007 period professional fees included consulting costs associated with technology planning and with a strategic planning initiative. Similar costs were not incurred during the 2008 period. The savings in business development and advertising costs are primarily related to a decrease in seminar and conference costs and a reduction in the marketing budget.

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The following table describes the components of non-interest expense for the three-month periods ending June 30, 2008 and 2007, dollars in thousands:

|                                       | For the Three Months<br>Ended June 30, |          | Dollar<br>Change | Percentage<br>Change |
|---------------------------------------|--|----------|------------------|----------------------|
|                                       | 2008                                   | 2007     |                  |                      |
| Salaries and employee benefits        | \$ 2,710                               | \$ 2,640 | \$ 70            | 2.7%                 |
| Occupancy and equipment               | 975                                    | 879      | 96               | 10.9%                |
| Outside service fees                  | 178                                    | 168      | 10               | 6.0%                 |
| Professional fees                     | 144                                    | 182      | (38)             | -20.9%               |
| Advertising and shareholder relations | 123                                    | 139      | (16)             | -11.5%               |
| Loan and collection expenses          | 99                                     | 43       | 56               | 130.2%               |
| Business development                  | 96                                     | 161      | (65)             | -40.4%               |
| Telephone and data communication      | 96                                     | 66       | 30               | 45.5%                |
| Director compensation                 | 83                                     | 81       | 2                | 2.5%                 |
| Armored car and courier               | 74                                     | 68       | 6                | 8.8%                 |
| Postage                               | 62                                     | 61       | 1                | 1.6%                 |
| Insurance                             | 59                                     | 47       | 12               | 25.5%                |
| Stationery and supplies               | 58                                     | 75       | (17)             | -22.7%               |
| Deposit premium amortization          | 54                                     | 75       | (21)             | -28.0%               |
| Other                                 | 167                                    | 56       | 111              | 198.2%               |
| Total non-interest expense            | \$ 4,978                               | \$ 4,741 | \$ 237           | 5.0%                 |

**Provision for income taxes.** The provision for income taxes was \$369 thousand, or 34.6% of pre-tax income for the three months ended June 30, 2008. This compares to \$713 thousand or 38.6% of pre-tax income during the second quarter of 2007. The decrease of 4% includes the effect of an increase, during 2008, in the percentage of tax-exempt income as a percentage of pre-tax income.

**FINANCIAL CONDITION**

**Fair value.** Effective January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements*, which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS No. 157 establishes a hierarchical disclosure framework associated with the level of observable pricing scenarios utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of the observable pricing scenario. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of observable pricing and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no observable pricing and a higher degree of judgment utilized in measuring fair value. Observable pricing scenarios are impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

**Loan portfolio composition.** Net loans increased slightly from \$349 million at December 31, 2007 to \$353 million at June 30, 2008. 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.



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The Company's largest lending categories are real estate mortgage loans, consumer loans and real estate construction loans. These categories accounted for approximately 40%, 18% and 20%, respectively of the Company's total loan portfolio at June 30, 2008, compared with the approximate 36%, 21% and 22%, respectively of the Company's total loan portfolio at December 31, 2007. In addition, the Company's real estate related loans, including real estate mortgage loans, real estate construction loans, consumer equity lines of credit, and agricultural loans secured by real estate comprised 72% and 70% of the total loan portfolio at June 30, 2008 and December 31, 2007. The business activities of the Company currently are focused in the California counties of Plumas, Nevada, Placer, Lassen, Modoc, Shasta, and Sierra and in Washoe County in Northern Nevada. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in these economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company's operations in these areas of Northeastern California and Northwestern Nevada exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in these regions.

The rates of interest charged on variable rate loans are set at specific increments in relation to the Company's published lending rate and vary as the Company's lending rate changes. At June 30, 2008 and December 31, 2007, approximately 66% and 63%, 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 \$36 million at both June 30, 2008 and December 31, 2007.

**Nonperforming assets.** Nonperforming loans at June 30, 2008 were \$1.9 million, a decrease of \$700 thousand from the \$2.6 million balance at December 31, 2007. Included in nonperforming loans are impaired loans with a principal balance of \$1.9 million and a fair value of \$1.7 million. The decrease in nonperforming loans primarily relates to loans that were transferred from nonperforming status to foreclosed real estate.

Nonperforming assets (which are comprised of nonperforming loans plus foreclosed real estate and repossessed vehicle holdings) at June 30, 2008 were \$4.4 million, an increase of \$1.2 million over the \$3.2 million balance at December 31, 2007. Foreclosed real estate holdings increased from three properties totaling \$0.4 million at December 31, 2007 to eleven properties totaling \$2.4 million at June 30, 2008. This increase is primarily related to improved residential land properties.

Nonperforming loans as a percentage of total loans decreased to 0.55% at June 30, 2008 down from 0.75% at December 31, 2007. Nonperforming assets as a percentage of total assets increased to 0.96% at June 30, 2008 up from 0.70% at December 31, 2007.

**Analysis of allowance for loan losses.** Net charge-offs during the six months ended June 30, 2008 totaled \$746 thousand, or 0.21% of average loans, compared to \$113 thousand, or 0.03% of average loans, for the comparable period in 2007. Net charge-offs during the first six months of 2008 were comprised of \$835 thousand of charge-offs offset by \$89 thousand in recoveries, compared to \$265 thousand of charge-offs offset by \$152 thousand in recoveries for the same period in 2007. The increase in charge-offs primarily relates to a decline in real estate values during the comparison periods. The allowance for loan losses was 1.25% of total loans as of June 30, 2008 up from 1.19% as of December 31, 2007. Based on an evaluation of the credit quality of the loan portfolio and delinquency trends and charge-offs, management believes the allowance for loan losses to be adequate. However, no prediction of the ultimate level of loans charged off in future years can be made with any certainty.

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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.

|  | <b>For the Six Months<br/>Ended June 30,<br/>(in thousands)</b> |             |
|--|---|-------------|
|  | <b>2008</b>   | <b>2007</b> |
| Balance at January 1,  | \$ 4,211  | \$ 3,917    |
| Charge-offs:   |   |             |
| Commercial and agricultural                                  | (128)   |             |
| Real estate mortgage   | (68)  |             |
| Real estate construction                                     | (423)   | (45)        |
| Consumer   | (216)   | (220)       |
| Total charge-offs  | (835)   | (265)       |
| Recoveries:  |   |             |
| Commercial and agricultural                                  | 7   | 50          |
| Real estate mortgage   |   |             |
| Real estate construction                                     |   |             |
| Consumer   | 82  | 102         |
| Total recoveries   | 89  | 152         |
| Net charge-offs  | (746)   | (113)       |
| Provision for loan losses                                    | 990   | 375         |
| Balance at June 30,  | \$ 4,455  | \$ 4,179    |
| Net charge-offs during the six-month period to average loans | 0.21%   | 0.03%       |
| Allowance for loan losses to total loans                     | 1.25%   | 1.17%       |

**Investment securities.** Investment securities decreased \$8.4 million to \$46.9 million at June 30, 2008, down from \$55.3 million at December 31, 2007. The investment portfolio balances in U.S. Treasuries, U.S. Government agencies, corporate debt securities and municipal obligations comprised 3%, 62%, 6% and 29%, respectively, of the Company's investment portfolio at June 30, 2008 compared to 6%, 62%, 7%, and 25% at December 31, 2007. The decrease in the overall investment portfolio resulted from maturities, calls and pay downs that were used to provide funding for loan growth and liquidity.

**Premises and equipment.** Premises and equipment increased by \$808 thousand from \$14.67 million at December 31, 2007 to \$15.47 million at June 30, 2008. This increase primarily relates to improvements and equipment for our new data processing facility and leasehold improvements at our new Redding branch.

**Deposits.** Total deposits were \$375 million as of June 30, 2008, a decrease of \$16.9 million, or 4%, from the December 31, 2007 balance of \$392 million. Declines of \$2.0 million in interest bearing transaction accounts (NOW), and \$20.1 million in time deposits were partially offset by increases of \$3.4 million in non-interest bearing demand deposits and \$1.8 million in money market and savings accounts. The decrease in time deposits relates primarily to the maturities of higher rate promotional certificates of deposit. The increase in money market and savings accounts includes \$1.7 million related to our recently introduced on balance sheet money market sweep product.

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. Time deposits declined to 29% of total deposits as of June 30, 2008 down from 33% as of December 31, 2007. Non-interest bearing demand deposits were 31% of total deposits at June 30, 2008 up from the 28% at December 31, 2007. Interest bearing transaction accounts were 19% of total deposits at June 30, 2008 and December 31, 2007. Money market and savings deposits increased to 21% of total deposits at June 30, 2008 up from 20% at December 31, 2007.

**Short-term borrowings.** Short-term borrowings, which consisted of one day Federal Home Loan Bank ( FHLB ) advances, totaled \$24.5 million at June 30, 2008 and \$7.5 million at December 31, 2007.

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**CAPITAL RESOURCES**

Shareholders' equity as of June 30, 2008 totaled \$36.8 million a decline of \$350 thousand from \$37.1 million as of December 31, 2007. Earnings during the first half of 2008 of \$1.3 million, a decrease in accumulated other comprehensive loss of \$73 thousand, stock-based compensation expense of \$144 thousand and \$21 thousand related to the exercise of stock options were offset by \$770 thousand in common stock cash dividends, \$670 thousand related to the repurchase of stock under the Company's stock buyback plan and a \$420 thousand cumulative-effect adjustment related to the company's split dollar life insurance policies upon adoption of EITF 06-04.

On December 20, 2007 the Company announced that for 2008 its board of directors authorized a common stock repurchase plan for up to 244,000 shares, or 5% of the Company's shares outstanding on December 20, 2007. During the first six months of 2008 the Company repurchased 52,472 shares at an average cost, including commission, of \$12.77 per share for a total cost of \$670 thousand.

It is the policy of the Company to periodically distribute excess retained earnings to the shareholders through the payment of cash dividends. Such dividends help promote shareholder value and capital adequacy by enhancing the marketability of the Company's stock. All authority to provide a return to the shareholders in the form of a cash or stock dividend or split rests with the Board of Directors (the Board). The Board will periodically, but on no regular schedule, review the appropriateness of a cash dividend payment. On May 16, 2008, the Company paid a semi-annual common stock cash dividend of \$0.16 per share. This represents a 7% increase in the semi-annual cash dividend per share from 15 cents paid on May 14, 2007. Although no assurance can be given that cash or stock dividends will be paid in the future the Company's cash dividend payout ratio over the last five years has averaged approximately 27% of net income.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company met all its capital adequacy requirements and that the Bank met the requirements to be considered well capitalized under the regulatory framework for prompt corrective action as of June 30, 2008.



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The following table presents the Company's and the Bank's capital ratios as of June 30, 2008 and December 31, 2007, dollars in thousands:

|  | June 30, 2008 |              | December 31, 2007 |              |
|--|---------------|--------------|-------------------|--------------|
|  | Amount        | Ratio        | Amount            | Ratio        |
| <b>Tier 1 Leverage Ratio</b>                         |               |              |                   |              |
| <b>Plumas Bancorp and Subsidiary</b>                 | \$ 45,915     | 10.4%        | \$ 46,209         | 10.0%        |
| Minimum regulatory requirement                       | 17,733        | 4.0%         | 18,439            | 4.0%         |
| <b>Plumas Bank</b>                                   | <b>44,911</b> | <b>10.1%</b> | <b>45,415</b>     | <b>9.9%</b>  |
| Minimum requirement for Well-Capitalized institution | 22,137        | 5.0%         | 23,024            | 5.0%         |
| Minimum regulatory requirement                       | 17,710        | 4.0%         | 18,419            | 4.0%         |
| <b>Tier 1 Risk-Based Capital Ratio</b>               |               |              |                   |              |
| <b>Plumas Bancorp and Subsidiary</b>                 | <b>45,915</b> | <b>11.6%</b> | <b>46,209</b>     | <b>11.6%</b> |
| Minimum regulatory requirement                       | 15,887        | 4.0%         | 15,881            | 4.0%         |
| <b>Plumas Bank</b>                                   | <b>44,911</b> | <b>11.3%</b> | <b>45,415</b>     | <b>11.5%</b> |
| Minimum requirement for Well-Capitalized institution | 23,796        | 6.0%         | 23,790            | 6.0%         |
| Minimum regulatory requirement                       | 15,864        | 4.0%         | 15,860            | 4.0%         |
| <b>Total Risk-Based Capital Ratio</b>                |               |              |                   |              |
| <b>Plumas Bancorp and Subsidiary</b>                 | <b>50,426</b> | <b>12.7%</b> | <b>50,475</b>     | <b>12.7%</b> |
| Minimum regulatory requirement                       | 31,775        | 8.0%         | 31,763            | 8.0%         |
| <b>Plumas Bank</b>                                   | <b>49,422</b> | <b>12.5%</b> | <b>49,681</b>     | <b>12.5%</b> |
| Minimum requirement for Well-Capitalized institution | 39,661        | 10.0%        | 39,651            | 10.0%        |
| Minimum regulatory requirement                       | 31,729        | 8.0%         | 31,720            | 8.0%         |

**LIQUIDITY**

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

The Company has unsecured short-term borrowing agreements with two of its correspondent banks in the amounts of \$10 million and \$5 million. In addition, the Company can borrow up to \$94 million from the Federal Home Loan Bank secured by commercial and residential mortgage loans. At June 30, 2008 the Company had outstanding borrowings, consisting of overnight advances, of \$24.5 million from the Federal Home Loan Bank.

Customer deposits are the Company's primary source of funds. Total deposits were \$375 million as of June 30, 2008, a decrease of \$16.9 million, or 4%, from the December 31, 2007 balance of \$392 million. Those funds are held in various forms with varying maturities. The Company does not have any brokered deposits. The Company's securities portfolio, Federal funds sold, Federal Home Loan Bank advances, and cash and due from banks serve as the primary sources of liquidity, providing adequate funding for loans during periods of high loan demand. During periods of decreased lending, funds obtained from the maturing or sale of investments, loan payments, and new deposits are invested in short-term earning assets, such as Federal funds sold and investment securities, to serve as a source of funding for future loan growth.

Management believes that the Company's available sources of funds, including short-term borrowings, will provide adequate liquidity for its operations in the foreseeable future.

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, based on their evaluation of the Company's disclosure controls and procedures as of the end of the Company's fiscal quarter ended June 30, 2008 (as defined in Exchange Act Rule 13a-15(e)), have concluded that the Company's disclosure controls and procedures are adequate and effective for purposes of Rule 13a-15(e) in timely alerting them to material information relating to the Company required to be included in the Company's filings with the SEC under the Securities Exchange Act of 1934.

There were no significant changes in the Company's internal controls over financial reporting or in other factors that could significantly affect internal controls that occurred during the Company's fiscal quarter ended June 30, 2008.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A RISK FACTORS**

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

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

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities

| <b>Period</b>                   | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>per Share (1)</b> | <b>Total Number<br/>of Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum<br/>Number of Shares<br/>That May Yet Be<br/>Purchased Under<br/>the<br/>Plans or Programs<br/>(2)</b> |
|---------------------------------|---|---|---|---|
| April 1, 2008 to April 30, 2008 | 9,988   | \$ 13.33  | 9,988   | 194,202   |
| May 1, 2008 to May 31, 2008     | 1,620   | \$ 12.34  | 1,620   | 192,582   |
| June 1, 2008 to June 30, 2008   | 1,054   | \$ 11.49  | 1,054   | 191,528   |
| Total                           | 12,662  | \$ 13.05  | 12,662  |   |

(1) Includes commissions.

(2) On December 20, 2007 the Company announced that for 2008 its board of directors authorized a common stock repurchase plan for up to 244,000 shares,

or 5% of the  
Company's  
shares  
outstanding on  
December 20,  
2007.

**Table of Contents****ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

The voting results of the registrant's annual meeting of the shareholders held on May 21, 2008 are as follows:

**Proposal #1: Election of Directors**

On the proposal to elect Directors of Plumas Bancorp, Management's nominees were elected as Directors of Plumas Bancorp until the 2009 Annual Meeting of Shareholders and until their successors are duly elected and qualified. The voting results were as follows:

| Nominee               | Votes For<br>Nominee | Votes<br>Withheld or |             | Broker<br>Non-Votes |
|-----------------------|----------------------|----------------------|-------------|---------------------|
|                       |                      | Against<br>Nominee   | Abstentions |                     |
| Douglas N. Biddle     | 3,946,994            | 123,269              | n/a         | n/a                 |
| Alvin G. Blickenstaff | 3,977,936            | 92,327               | n/a         | n/a                 |
| William E. Elliott    | 3,979,652            | 90,611               | n/a         | n/a                 |
| Gerald W. Fletcher    | 3,978,786            | 91,477               | n/a         | n/a                 |
| John Flournoy         | 3,978,786            | 91,477               | n/a         | n/a                 |
| Arthur C. Grohs       | 3,978,686            | 91,577               | n/a         | n/a                 |
| Jerry V. Kehr         | 3,977,936            | 92,327               | n/a         | n/a                 |
| Terrance J. Reeson    | 3,845,299            | 224,964              | n/a         | n/a                 |
| Thomas Watson         | 3,979,542            | 90,721               | n/a         | n/a                 |
| Daniel E. West        | 3,978,786            | 91,477               | n/a         | n/a                 |

**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 included as exhibit 3.2 to the Registrant's Form S-4, File No. 333-84534, which is incorporated by 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.
- 10.1 Executive Salary Continuation Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.1 to the Registrant's 8-K filed on October 17, 2005, which is incorporated by this reference herein.



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- 10.2 Split Dollar Agreement of Andrew J. Ryback dated August 23, 2005, is included as Exhibit 10.2 to the Registrant's 8-K filed on October 17, 2005, which is incorporated by this reference herein.
- 10.5 Employment Agreement of Douglas N. Biddle dated January 1, 2006 is included as Exhibit 10.5 to the Registrant's 8-K filed on March 15, 2006, which is incorporated by this reference herein.
- 10.6 Executive Salary Continuation Agreement as amended of Douglas N. Biddle dated June 2, 1994, is included as Exhibit 10.6 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.7 Split Dollar Agreements of Douglas N. Biddle dated January 24, 2002, is included as Exhibit 10.7 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.8 Director Retirement Agreement of John Flournoy dated March 21, 2007, is included as Exhibit 10.8 to Registrant's 10-Q for March 31, 2007, which is incorporated by this reference herein.
- 10.9 Executive Salary Continuation Agreement as amended of Dennis C. Irvine dated June 2, 1994, is included as Exhibit 10.9 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.10 Split Dollar Agreements of Dennis C. Irvine dated January 24, 2002, is included as Exhibit 10.10 to the Registrant's 10-QSB for June 30, 2002, 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.
- 10.13 Deferred Fee Agreement as amended of Jerry V. Kehr dated August 19, 1998, is included as Exhibit 10.13 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.14 Amended and Restated Director Retirement Agreement of Jerry V. Kehr dated April 28, 2000, is included as Exhibit 10.14 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.15 Consulting Agreement of Jerry V. Kehr dated May 10, 2000, is included as Exhibit 10.15 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.16 Deferred Fee Agreement of Jerry V. Kehr dated December 21, 2005 is included as Exhibit 10.16 to the Registrant's 8-K filed on March 15, 2006, which is incorporated by this reference herein.



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- 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.

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- 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.
- 10.39 Deferred Fee Agreement of Thomas Watson dated March 3, 2001, is included as Exhibit 10.39 to the Registrant's 10-QSB for June 30, 2002, 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, is included as Exhibit 10.41 to the Registrant's 10-QSB for June 30, 2002, 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.
- 10.59 Director Retirement Agreement of Thomas Watson dated May 1, 2003, is included as Exhibit 10.59 to the Registrant's 10-Q for June 30, 2003, which is incorporated by this reference herein.
- 10.60 Consulting Agreement of Thomas Watson dated May 1, 2003, is included as Exhibit 10.60 to the Registrant's 10-Q for June 30, 2003, which is incorporated by this reference herein.

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- 10.62 Deferred Fee Agreement of Thomas Watson dated December 23, 2004, is included as Exhibit 10.62 to the Registrant's 8-K filed on January 6, 2005, which is incorporated by this reference herein.
- 10.63 Deferred Fee Agreement of Jerry V. Kehr dated December 24, 2004, is included as Exhibit 10.63 to the Registrant's 8-K filed on January 6, 2005, 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.
- 10.66 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Jerry V. Kehr adopted on September 19, 2007, is included as Exhibit 10.66 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.
- 10.68 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Thomas Watson adopted on September 19, 2007, is included as Exhibit 10.68 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.69 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Daniel E. West adopted on September 19, 2007, is included as Exhibit 10.69 to the Registrant's 8-K filed on September 25, 2007, which is incorporated by this reference herein.
- 10.70 First Amendment to the Plumas Bank Amended and Restated Director Retirement Agreement for Gerald W. Fletcher adopted on October 9, 2007, is included as Exhibit 10.70 to the Registrant's 10-Q for September 30, 2007, which is incorporated by this reference herein.
- 11 Computation of per share earnings appears in the attached 10-Q under Plumas Bancorp and Subsidiary Notes to Condensed Consolidated Financial Statements as Footnote 5 Earnings Per Share.

31.1

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Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated August 8, 2008.

31.2 Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated August 8, 2008.

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 8, 2008.

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 8, 2008.

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SIGNATURES

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

**PLUMAS BANCORP**

(Registrant)

Date: August 8, 2008

/s/ Andrew J. Ryback

Andrew J. Ryback

*Executive Vice President Chief Financial Officer*

/s/ Douglas N. Biddle

Douglas N. Biddle

*President and Chief Executive Officer*

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**EXHIBIT INDEX**

**Exhibit**

| <b>No.</b> | <b>Description</b>  |
|------------|---|
| 11         | Computation of per share earnings appears in the attached 10-Q under Plumas Bancorp and Subsidiary Notes to Condensed Consolidated Financial Statements as Footnote 5 Earnings Per Share. |
| 31.1       | Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated August 8, 2008.   |
| 31.2       | Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated August 8, 2008.   |
| 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 8, 2008.               |
| 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 8, 2008.               |