

PLUMAS BANCORP
Form 10-Q
May 09, 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 March 31, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 May 7, 2008
4,822,457 shares

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PLUMAS BANCORP
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(In thousands, except share data)

| | March 31, 2008 | December 31, 2007 |
|---|---------------------------|----------------------------------|
| Assets | | |
| Cash and due from banks | \$ 12,692 | \$ 13,207 |
| Federal funds sold | | |
| Cash and cash equivalents | 12,692 | 13,207 |
| Investment securities (fair value of \$51,002 at March 31, 2008 and \$55,367 at December 31, 2007) | 50,692 | 55,292 |
| Loans, less allowance for loan losses of \$4,633 at March 31, 2008 and \$4,211 at December 31, 2007 (Notes 3 and 4) | 346,327 | 349,302 |
| Premises and equipment, net | 14,639 | 14,666 |
| Intangible assets, net | 962 | 1,037 |
| Bank owned life insurance | 9,510 | 9,428 |
| Real estate and vehicles acquired through foreclosure | 855 | 537 |
| Accrued interest receivable and other assets | 9,260 | 9,646 |
| Total assets | \$ 444,937 | \$ 453,115 |
| Liabilities and Shareholders Equity | | |
| Deposits: | | |
| Non-interest bearing | \$ 107,976 | \$ 111,240 |
| Interest bearing | 283,012 | 280,700 |
| Total deposits | 390,988 | 391,940 |
| Short-term borrowings | | 7,500 |
| Accrued interest payable and other liabilities | 6,436 | 6,226 |
| Junior subordinated deferrable interest debentures | 10,310 | 10,310 |
| Total liabilities | 407,734 | 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 4,829,820 shares at March 31, 2008 and 4,869,130 shares at | 5,076 | 5,042 |

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December 31, 2007

| | | |
|--|------------|------------|
| Retained earnings | 31,893 | 32,204 |
| Accumulated other comprehensive income (loss) (Note 6) | 234 | (107) |
| Total shareholders' equity | 37,203 | 37,139 |
| Total liabilities and shareholders' equity | \$ 444,937 | \$ 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)

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2008 | 2007 |
| Interest Income: | | |
| Interest and fees on loans | \$ 6,224 | \$ 6,905 |
| Interest on investment securities: | | |
| Taxable | 411 | 519 |
| Exempt from Federal income taxes | 127 | 134 |
| Interest on Federal funds sold | 1 | 2 |
| Total interest income | 6,763 | 7,560 |
| Interest Expense: | | |
| Interest on deposits | 1,546 | 1,675 |
| Interest on short-term borrowings | 34 | 186 |
| Interest on junior subordinated deferrable interest debentures | 191 | 206 |
| Other | 4 | 6 |
| Total interest expense | 1,775 | 2,073 |
| Net interest income before provision for loan losses | 4,988 | 5,487 |
| Provision for Loan Losses | 520 | 250 |
| Net interest income after provision for loan losses | 4,468 | 5,237 |
| Non-Interest Income: | | |
| Service charges | 953 | 855 |
| Earnings on Bank owned life insurance policies | 103 | 102 |
| Other | 270 | 314 |
| Total non-interest income | 1,326 | 1,271 |
| Non-Interest Expenses: | | |
| Salaries and employee benefits | 2,756 | 2,828 |
| Occupancy and equipment | 959 | 910 |
| Other | 1,221 | 1,270 |
| Total non-interest expenses | 4,936 | 5,008 |
| Income before provision for income taxes | 858 | 1,500 |
| Provision for Income Taxes | 282 | 552 |
| Net income | \$ 576 | \$ 948 |

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| | | |
|-------------------------------------|---------|---------|
| Basic earnings per share (Note 5) | \$ 0.12 | \$ 0.19 |
| Diluted earnings per share (Note 5) | \$ 0.12 | \$ 0.19 |

See notes to unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended March 31, | |
|---|---|-------------|
| | 2008 | 2007 |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 576 | \$ 948 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 520 | 250 |
| Change in deferred loan origination costs/fees, net | 76 | 69 |
| Depreciation and amortization | 528 | 564 |
| Stock-based compensation expense | 69 | 53 |
| Amortization of investment security premiums | 16 | 59 |
| Accretion of investment security discounts | (16) | (16) |
| Net loss on disposal/sale of premises and equipment | | 27 |
| Net gain on sale of other vehicles owned | | (20) |
| Earnings on bank-owned life insurance policies | (82) | (82) |
| Write-down of other real estate to market value | 25 | |
| Decrease (increase) in accrued interest receivable and other assets | 58 | (419) |
| (Decrease) increase in accrued interest payable and other liabilities | (210) | 278 |
| Net cash provided by operating activities | 1,560 | 1,711 |
| Cash Flows from Investing Activities: | | |
| Proceeds from matured and called available-for-sale investment securities | 4,500 | 7,375 |
| Proceeds from matured and called held-to-maturity investment securities | | 26 |
| Purchases of held-to-maturity investment securities | | |
| Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities | 681 | 755 |
| Net decrease (increase) in loans | 1,896 | (5,921) |
| Proceeds from sale of other vehicles | 140 | 89 |
| Purchase of premises and equipment | (338) | (382) |
| Net cash provided by investing activities | 6,879 | 1,942 |

Continued on next page.

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

| | For the Three Months Ended March 31, | |
|--|---|----------------------|
| | 2008 | 2007 |
| Cash Flows from Financing Activities: | | |
| Net increase (decrease) in demand, interest bearing and savings deposits | \$ 5,781 | \$ (11,813) |
| Net (decrease) increase in time deposits | (6,733) | 14,997 |
| Net decrease in short-term borrowings | (7,500) | (5,200) |
| Net proceeds from exercise of stock options | 3 | 17 |
| Repurchase and retirement of common stock | (505) | (490) |
| Net cash used in financing activities | (8,954) | (2,489) |
| (Decrease) increase in cash and cash equivalents | (515) | 1,164 |
| Cash and Cash Equivalents at Beginning of Year | 13,207 | 11,293 |
| Cash and Cash Equivalents at End of Period | \$ 12,692 | \$ 12,457 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest expense | \$ 1,940 | \$ 1,809 |
| Income taxes | \$ | \$ 75 |
| Non-Cash Investing Activities: | | |
| Real estate and vehicles acquired through foreclosure | \$ 483 | \$ 94 |
| Net change in unrealized gain/loss on available-for-sale securities | \$ 341 | \$ 149 |
| Non-Cash Financing Activities: | | |
| 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 March 31, 2008 and December 31, 2007 and its results of operations and cash flows for the three-month periods ended March 31, 2008 and 2007. Certain reclassifications have been made to prior period's 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 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 periods ended March 31, 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:

| | March 31, 2008 | December 31, 2007 |
|---|---------------------------|----------------------------------|
| Commercial | \$ 41,479 | \$ 39,584 |
| Agricultural | 36,124 | 35,762 |
| Real estate mortgage | 130,069 | 128,357 |
| Real estate construction and land development | 74,004 | 76,478 |
| Consumer | 68,796 | 72,768 |
| | 350,472 | 352,949 |
| Deferred loan costs, net | 488 | 564 |
| Allowance for loan losses | (4,633) | (4,211) |
| | \$ 346,327 | \$ 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 \$85,619,000 and \$96,867,000 and stand-by letters of credit of \$2,678,000 and \$655,000 at March 31, 2008 and December 31, 2007, respectively.

Of the loan commitments outstanding at March 31, 2008, \$18,254,000 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 March 31, 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 Ended March 31, | |
|---|---|-------------|
| | 2008 | 2007 |
| Earnings Per Share: | | |
| Basic earnings per share | \$ 0.12 | \$ 0.19 |
| Diluted earnings per share | \$ 0.12 | \$ 0.19 |
| Weighted Average Number of Shares Outstanding: | | |
| (in thousands) | | |
| Basic shares | 4,859 | 5,012 |
| Diluted shares | 4,886 | 5,071 |

Shares of common stock issuable under stock options for which the exercise prices were greater than the average market prices were not included in the computation of diluted earnings per share due to their antidilutive effect. Stock options not included in the computation of diluted earnings per share were 310,000 and 170,700 during the three-month periods ended March 31, 2008 and 2007, respectively.

6. COMPREHENSIVE INCOME

Total comprehensive income for the three months ended March 31, 2008 and 2007 totaled \$917,000 and \$1,097,000, respectively. Comprehensive income is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were \$341,000 and \$149,000 for the three months ended March 31, 2008 and 2007, respectively, together with net income.

At March 31, 2008 and December 31, 2007, accumulated other comprehensive income (loss) totaled \$234,000 and \$(107,000), respectively, and is reflected, net of taxes, as a component of shareholders' equity.

7. STOCK-BASED COMPENSATION

In 2001 and 1991, the Company established Stock Option Plans for which 886,161 shares of common stock remain reserved for issuance to employees and directors and 400,589 shares are available for future grants under incentive and nonstatutory agreements as of March 31, 2008. The Company granted 90,300 and 155,700 options in the quarters ended March 31, 2008 and 2007 respectively. The weighted average grant date fair value of options granted for the three month periods ended March 31, 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 \$69,000 and \$53,000 in the three months ended March 31, 2008 and 2007, respectively. The associated future income tax benefit recognized was \$6,000 in both of the three month periods ended March 31, 2008 and 2007. Compensation expense is recognized over the vesting period on a straight line accounting basis.

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 three months ended March 31, 2008:

| | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Intrinsic Value (in thousands) |
|--|---------------|--|---|---|
| | Shares | | | |
| Options outstanding at December 31, 2007 | 395,772 | \$ 13.37 | | |
| Options granted | 90,300 | 12.40 | | |
| Options exercised | (500) | 5.43 | | |
| Options cancelled | | | | |
| Options outstanding at March 31, 2008 | 485,572 | \$ 13.20 | 6.3 | \$ 504 |
| Options exercisable at March 31, 2008 | 245,511 | \$ 11.91 | 5.3 | \$ 449 |
| Expected to vest after March 31, 2008 | 240,061 | \$ 14.52 | 7.3 | \$ 55 |

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 three months ended March 31, 2008 was \$3,000. During the three months ended March 31, 2008, the amount of cash received from the exercise of stock options was \$3,000.

At March 31, 2008, there was \$777,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 3.0 years. The total fair value of options vested during the three months ended March 31, 2008 was \$170,000.

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 quarter ended March 31, 2008.

Table of Contents**9. FAIR VALUE MEASUREMENT**

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 quarter 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 March 31, 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:

| | March 31, 2008 | Fair Value Measurements at March 31, 2008 Using | | |
|-------------------------------|-------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (in 000's) | | | | |
| Assets: | | | | |
| Available-for-sale securities | \$ 37,205 | \$ 22,797 | \$ 14,408 | \$ |

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 March 31, 2008 Using | | |
|--|--|--|---------------------------------------|
| | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| | | | |

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| <i>(in 000 s)</i> | March 31, 2008 | (Level 1) | (Level 2) | (Level 3) |
|-------------------|-------------------|--------------|-----------|-----------|
| Assets: | | | | |
| Impaired loans | \$ 2,979 10 | \$ | \$ 2,979 | \$ |

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Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$3.8 million at March 31, 2008, with a valuation allowance of \$0.8 million at March 31, 2008. Declines in the collateral values of impaired loans during the first quarter of 2008 were \$0.3 million which were 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 39,810 shares were repurchased during the three months ended March 31, 2008 at an average price of \$12.69 per share. Management of the Company is authorized to repurchase an additional 204,190 shares; however, the Board of Directors may suspend, terminate or modify the repurchase plan at any time.

11. SUBSEQUENT EVENTS

On April 16, 2008, the Company declared a common stock cash dividend of \$0.16 per share. The dividend will be payable on May 16, 2008 to its shareholders of record on April 30, 2008.

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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 , comm 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 March 31, 2008 and December 31, 2007 and for the three month periods ended March 31, 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 will be payable on May 16, 2008 to its shareholders of record on April 30, 2008.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

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

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The Company's net income decreased \$372 thousand, or 39%, to \$576 thousand for the three months ended March 31, 2008 from \$948 thousand for the same period in 2007. The decline in net income relates to a \$499 thousand decline in net interest income and a \$270 thousand increase in the loan loss provision, partially offset by an increase of \$55 thousand in non-interest income and decreases of \$72 thousand in non-interest expense and \$270 thousand in the provision for income taxes. The decrease in net interest income is related to declines in market interest rates during the first quarter of 2008, as a result of the 300 basis point reduction by the Federal Reserve Bank since September 2007. The increase in the loan loss provision is primarily in response to our evaluation of the required level of the allowance for loan losses in the current economic environment, particularly related to real estate values.

Total assets at March 31, 2008 were \$445 million, a decrease of \$8 million from the \$453 million at December 31, 2007. Anticipated maturities and calls during the first quarter of 2008 resulted in investment securities declining by \$4.6 million. In addition, net loans declined by \$3.0 million. Proceeds from the maturities and calls of investment securities and loans were utilized to fully pay off short-term borrowings which totaled \$7.5 million at December 31, 2007. Deposits declined slightly from \$392 million at December 31, 2007 to \$391 million at March 31, 2007.

Decreases of \$6.7 million in time deposits, \$3.3 million in non-interest bearing demand and \$3.7 million in NOW accounts were mostly offset by an increase of \$12.7 million in money market and savings accounts.

The annualized return on average assets was 0.52% for the three months ended March 31, 2008 down from 0.82% for the same period in 2007. The annualized return on average equity was 6.2% for the three months ended March 31, 2008 down from 10.5% for the same period in 2007.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008

Net interest income before provision for loan losses. Net interest income, on a nontax-equivalent basis, was \$5.0 million for the three months ended March 31, 2008, a decrease of \$500 thousand, or 9%, from \$5.5 million for the same period in 2007. The decrease in net interest income can be primarily attributed to a decrease in the Company's average loan yield and to a lesser extent to a decline in average investment securities. These declines in interest income were partially offset by a decline in the average rate paid on our deposits and declines in the average balance and rate paid on short-term borrowings. Net interest margin for the three months ended March 31, 2008 decreased 28 basis points, or 5%, to 4.96%, down from 5.24% for the same period in 2007.

Interest income decreased \$797 thousand or 11%, to \$6.8 million for the three months ended March 31, 2008 primarily as a result of a decline in loan yield. Interest and fees on loans decreased \$681 thousand to \$6.2 million for the three months ended March 31, 2008 as compared to \$6.9 million during the first quarter of 2007. The Company's average loan balances were \$351 million for the three months ended March 31, 2008, down \$2.4 million, or 1%, from \$354 million for the same period in 2007. The average rate earned on the Company's loan balances decreased 79 basis points to 7.13% during the first three months of 2008 compared to 7.92% during the first three months of 2007. A significant portion of the Company's loan portfolio is variable rate, much of which is tied to the prime interest rate. The average prime interest rate declined by 2% from 8.25% for the quarter ended March 31, 2007 to 6.22% during the current quarter. The Company experienced a decline of \$115 thousand in interest on investment securities related to a decline in the average balance of these assets partially offset by a 33 basis point increase in yields.

Interest expense decreased \$298 thousand, or 14%, to \$1.8 million for the three months ended March 31, 2008, down from \$2.1 million for the same period in 2007 due to the decrease in both the rates paid on our interest-bearing liabilities and in average balances. Average interest-bearing liabilities declined by \$15.4 million from \$312 million during the quarter ended March 31, 2007 to \$296 million during the current quarter. This decline included declines of \$5.4 million in average interest-bearing deposits and \$10 million in average short-term borrowings.

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The increase in interest expense on time deposits of \$124 thousand was offset by decreases in interest expense on other interest-bearing deposits of \$253 thousand, resulting in an overall decrease in interest expense on deposits of \$129 thousand from \$1.68 million during the quarter ended March 31, 2007 to \$1.55 million during the current quarter. The average rate paid on the Company's interest bearing deposits declined 16 basis points from 2.37% for the quarter ended March 31, 2007 to 2.21% for the first current quarter of 2008.

Average time deposits totaled \$125 million during the first quarter of 2008, up \$15 million from \$110 million during the quarter ended March 31, 2007. The average rate paid on time deposits decreased from 4.16% during the three months ended March 31, 2007 to 4.00% during the first quarter of 2008.

The Company has experienced a change in its deposit mix with an increase in average time deposits offset by declines in non-interest bearing and other interest bearing deposits. During 2007, rather than increasing the rate paid on our lower yielding interest bearing transaction and money market accounts to attract deposits and thereby increasing the rate paid on the entire balance of these accounts, the Company chose to offer a promotional short-term time deposit product which we continued offering until February of 2008. The average balance in promotional certificates of deposit was \$46 million during the quarter ended March 31, 2008 an increase of \$23 million from the first quarter of 2007. The average rate paid on this product declined from 5.11% during the first quarter of 2007 to 4.60% percent during the current quarter. The ending balance of promotional time deposits at March 31 2008 was \$25 million, much of which will mature in the next 3 months. In the next quarter, as these promotional certificates of deposit mature, we would expect additional declines in the rate paid on interest-bearing deposits.

The average balance of the Company's other interest-bearing deposits, which include NOW, money market and savings accounts declined by \$21 million from \$178 million during the first quarter of 2007 to \$157 million during the current quarter and the average rate paid declined from 1.26% to 0.77%. The decline in rate primarily relates to our Money Fund Plus\$ balances and is consistent with the recent decline 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.

Interest expense on short-term borrowings decreased by \$152 thousand from \$186 thousand during the 2007 quarter to \$34 thousand for the three months ended March 31, 2008. This decline resulted from both a decrease in the average balance outstanding of \$10 million and a decline in the rate paid on these borrowings of 200 basis points. The average rate paid on the Company's trust preferred securities (junior subordinated debentures) also decreased 65 basis points to 7.45% for the three months ended March 31, 2008 from 8.10% during the first quarter of 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 quarter ended March 31, 2008.

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, 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:

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| | For the Three Months Ended March 31, 2008 | | | For the Three Months Ended March 31, 2007 | | |
|---|--|-------------------------------|----------------|--|-------------------------------|----------------|
| | Average Balance (in thousands) | Interest (in thousands) | Yield/ Rate | Average Balance (in thousands) | Interest (in thousands) | Yield/ Rate |
| Interest-earning assets: | | | | | | |
| Loans (1) (2) | \$ 351,221 | \$ 6,224 | 7.13% | \$ 353,640 | \$ 6,905 | 7.92% |
| Investment securities (1) | 53,088 | 538 | 4.08% | 70,700 | 653 | 3.75% |
| Federal funds sold | 179 | 1 | 2.25% | 175 | 2 | 4.63% |
| Total interest-earning assets | 404,488 | 6,763 | 6.72% | 424,515 | 7,560 | 7.22% |
| Cash and due from banks | 11,715 | | | 12,597 | | |
| Other assets | 31,668 | | | 32,616 | | |
| Total assets | \$ 447,871 | | | \$ 469,728 | | |
| Interest-bearing liabilities: | | | | | | |
| NOW deposits | \$ 73,277 | 188 | 1.03% | \$ 79,600 | 369 | 1.88% |
| Money market deposits | 36,531 | 68 | 0.75% | 44,566 | 106 | 0.96% |
| Savings deposits | 46,679 | 43 | 0.37% | 53,487 | 77 | 0.58% |
| Time deposits | 125,303 | 1,247 | 4.00% | 109,566 | 1,123 | 4.16% |
| Total deposits | 281,790 | 1,546 | 2.21% | 287,219 | 1,675 | 2.37% |
| Short-term borrowings | 4,057 | 34 | 3.37% | 14,053 | 186 | 5.37% |
| Other interest-bearing liabilities | 308 | 4 | 5.22% | 300 | 6 | 8.11% |
| Junior subordinated debentures | 10,310 | 191 | 7.45% | 10,310 | 206 | 8.10% |
| Total interest-bearing liabilities | 296,465 | 1,775 | 2.41% | 311,882 | 2,073 | 2.70% |
| Non-interest bearing deposits | 108,192 | | | 116,284 | | |
| Other liabilities | 5,743 | | | 4,982 | | |
| Shareholders equity | 37,471 | | | 36,580 | | |
| Total liabilities & equity | \$ 447,871 | | | \$ 469,728 | | |
| Cost of funding interest-earning assets | | | 1.76% | | | 1.98% |

| | | | | |
|--|----------|-------|----------|-------|
| (3) Net interest income and margin (4) | \$ 4,988 | 4.96% | \$ 5,487 | 5.24% |
|--|----------|-------|----------|-------|

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

(2) Net loan costs included in loan interest income for the three-month periods ended March 31, 2008 and 2007 were \$77,000 and \$147,000, 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 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 March 31 (in thousands) | | | |
|--------------------------------------|--|-----------------|----------------|--------------|
| | Volume (1) | Rate (2) | Mix (3) | Total |
| Interest-earning assets: | | | | |
| Loans | \$ (48) | \$ (696) | \$ 63 | \$ (681) |
| Investment securities | (164) | 58 | (9) | (115) |
| Federal funds sold | | (1) | | (1) |
| Total interest income | (212) | (639) | 54 | (797) |
| Interest-bearing liabilities: | | | | |
| NOW deposits | (30) | (168) | 17 | (181) |
| Money market deposits | (19) | (24) | 5 | (38) |
| Savings deposits | (10) | (28) | 4 | (34) |
| Time deposits | 163 | (42) | 3 | 124 |
| Short-term borrowings | (133) | (70) | 51 | (152) |
| Other interest-bearing liabilities | | (2) | | (2) |
| Junior subordinated debentures | | (17) | 2 | (15) |
| Total interest expense | (29) | (351) | 82 | (298) |
| Net interest income | \$ (183) | \$ (288) | \$ (28) | \$ (499) |

(1) The volume change in net interest income represents the change in average balance multiplied 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 the increased level of nonperforming loans 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 \$250 thousand during the first quarter of 2007 to \$520 thousand during the current quarter. 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 three months ended March 31, 2008 non-interest income increased by \$55 thousand to \$1.33 million, from \$1.27 million during the quarter ended March 31, 2007. The largest component of this increase was a \$98 thousand increase in service charges on deposit accounts resulting from a change in fee structure instituted during mid 2007. Additionally, miscellaneous other income increased by \$17 thousand. Partially offsetting these increases in non-interest income was a decline in the gain recorded on the sale of repossessed vehicles from \$20 thousand during the first quarter of 2007 and none during the current quarter, and a decline in income on the sale of noninsured products of \$17 thousand from \$52 thousand during the quarter ended March 31, 2007 to \$35 thousand during the current quarter.

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The following table describes the components of non-interest income for the three-month periods ending March 31, 2008 and 2007 in thousands:

| | For the Three Months | | Dollar Change | Percentage Change |
|--|-------------------------|----------|------------------|----------------------|
| | Ended March 31 2008 | 2007 | | |
| Service charges on deposit accounts | \$ 953 | \$ 855 | \$ 98 | 11.5% |
| Earnings on life insurance policies | 103 | 102 | 1 | 1.0% |
| Merchant processing income | 63 | 60 | 3 | 5.0% |
| Official check fees | 38 | 41 | (3) | -7.3% |
| Investment services income | 35 | 52 | (17) | -32.7% |
| Customer service fees | 29 | 30 | (1) | -3.3% |
| Federal Home Loan Bank dividends | 28 | 31 | (3) | -9.7% |
| Mortgage loan commission and servicing fees | 21 | 25 | (4) | -16.0% |
| Gain on sale of loans | 18 | 27 | (9) | -33.3% |
| Safe deposit box and night depository income | 17 | 18 | (1) | -5.6% |
| Printed check fee income | 11 | 15 | (4) | -26.7% |
| Other deposit account fees | 9 | 11 | (2) | -18.2% |
| Gain on sale of vehicles | 0 | 20 | (20) | -100.0% |
| Other | 1 | (16) | 17 | 106.3% |
| Total non-interest income | \$ 1,326 | \$ 1,271 | \$ 55 | 4.3% |

Non-interest expenses. During the three months ended March 31, 2008, total non-interest expense decreased by \$72 thousand, or 1%, to \$4.9 million, down from \$5.0 million for the comparable period in 2007. This decrease in non-interest expense was primarily the result of decreases in salaries and employee benefits and professional fees. Salaries and other employee benefits decreased by \$72 thousand primarily related to a decrease in bonus expense of \$114 thousand. Professional costs decreased by \$44 thousand, primarily related to a decline in consulting costs. During the 2007 quarter the Company incurred \$30 thousand in consulting expense related to an outside evaluation of our core banking software requirements. Other significant savings included declines of \$35 thousand in advertising costs and \$19 thousand in stationary and supply costs.

The largest increase in non-interest expense was a \$49 thousand increase in occupancy and equipment costs primarily related to weather conditions, including a significant increase in snow removal costs during the comparable periods. Consistent with the increase in nonperforming loans during the period, loan collection expense increased by \$22 thousand from \$44 thousand during the quarter ended March 31, 2007 to \$66 thousand during the current quarter. A \$20 thousand increase in insurance expense is primarily related to recognizing certain postretirement insurance costs for split dollar life insurance policies.

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The following table describes the components of non-interest expense for the three-month periods ending March 31, 2008 and 2007, in thousands:

| | For the Three Months Ended March 31 | | Dollar Change | Percentage Change |
|---------------------------------------|--|-------------|--------------------------|------------------------------|
| | 2008 | 2007 | | |
| Salaries and employee benefits | \$ 2,756 | \$ 2,828 | \$ (72) | -2.5% |
| Occupancy and equipment | 959 | 910 | 49 | 5.4% |
| Outside service fees | 170 | 156 | 14 | 9.0% |
| Professional fees | 163 | 207 | (44) | -21.3% |
| Business development | 141 | 125 | 16 | 12.8% |
| Advertising and shareholder relations | 104 | 139 | (35) | -25.2% |
| Telephone and data communication | 102 | 103 | (1) | -1.0% |
| Director compensation | 92 | 93 | (1) | -1.1% |
| Deposit premium amortization | 75 | 75 | | % |
| Armored car and courier | 68 | 66 | 2 | 3.0% |
| Loan and collection expenses | 66 | 44 | 22 | 50.0% |
| Stationery and supplies | 58 | 77 | (19) | -24.7% |
| Postage | 58 | 60 | (2) | -3.3% |
| Insurance | 57 | 37 | 20 | 54.1% |
| Other | 67 | 88 | (21) | -23.9% |
| Total non-interest expense | \$ 4,936 | \$ 5,008 | \$ (72) | -1.4% |

Provision for income taxes. The provision for income taxes was \$282 thousand, or 32.9% of pre-tax income for the three months ended March 31, 2008. This compares to \$552 thousand or 36.8% of pre-tax income during the first three months of 2007. The decrease of 3.9% includes the effect of an increase, during the 2008 quarter, 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.

See Note 9 of the *Notes to Condensed Consolidated Financial Statements* for additional information about the financial instruments carried at fair value.

Loan portfolio composition. Net loans decreased slightly from \$349 million at December 31, 2007 to \$346 million at March 31, 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 and real estate construction loans. These categories accounted for approximately 37%, 20% and 21%, respectively of the Company's total loan portfolio at March 31, 2008, consistent 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 71% and 70% of the total loan portfolio at March 31, 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 March 31, 2008 and December 31, 2007, approximately 62% 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 March 31, 2008 and December 31, 2007.

Nonperforming assets. Nonperforming loans at March 31, 2008 were \$3.8 million, an increase of \$1.2 million over the \$2.6 million balance at December 31, 2007. Included in nonperforming loans are impaired loans with a principal balance of \$3.8 million and a fair value of \$3.0 million. The increase in nonperforming loans during the quarter consists primarily of real estate loans the largest of which is a land loan with a principal balance of \$1.1 million and a fair value, based on the current appraised value of the collateral, of \$0.8 million. Nonperforming assets (which are comprised of nonperforming loans plus foreclosed real estate and repossessed vehicle holdings) at March 31, 2008 were \$4.7 million, an increase of \$1.5 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 four properties totaling \$0.8 million at March 31, 2008.

Nonperforming loans as a percentage of total loans increased to 1.09% at March 31, 2008 up from 0.75% at December 31, 2007. In addition, nonperforming assets as a percentage of total assets also increased to 1.05% at March 31, 2008 up from 0.70% at December 31, 2007.

Analysis of allowance for loan losses. Net charge-offs during the three months ended March 31, 2008 totaled \$98 thousand, or 0.03% of average loans, compared to \$17 thousand, or less than 0.01% of average loans, for the comparable period in 2007. Net charge-offs during the first three months of 2008 were comprised of \$151 thousand of charge-offs offset by \$53 thousand in recoveries, compared to \$134 thousand of charge-offs offset by \$117 thousand in recoveries for the same period in 2007. The allowance for loan losses was 1.32% of total loans as of March 31, 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 three-month period indicated with respect to the Company's allowance for loan losses as well as charge-off and recovery activity, in thousands:

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2008 | 2007 |
| Balance at January 1, | \$ 4,211 | \$ 3,917 |
| Charge-offs: | | |
| Commercial and agricultural | (48) | |
| Real estate mortgage | | |
| Real estate construction | | |
| Consumer | (103) | (134) |
| Total charge-offs | (151) | (134) |
| Recoveries: | | |
| Commercial and agricultural | 4 | 46 |
| Real estate mortgage | | |
| Real estate construction | | |
| Consumer | 49 | 71 |
| Total recoveries | 53 | 117 |
| Net charge-offs | (98) | (17) |
| Provision for loan losses | 520 | 250 |
| Balance at March 31, | \$ 4,633 | \$ 4,150 |
| Net charge-offs during the three-month period to average loans | 0.03% | 0.00% |
| Allowance for loan losses to total loans | 1.32% | 1.15% |

Investment securities. Investment securities decreased \$4.6 million to \$50.7 million at March 31, 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 7%, 60%, 7% and 26%, respectively, of the Company's investment portfolio at March 31, 2007 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 reduce short-term borrowings.

Premises and equipment. Premises and equipment decreased slightly by \$27 thousand from \$14.67 million at December 31, 2007 to \$14.64 million at March 31, 2008.

Deposits. Total deposits were \$391 million as of March 31, 2008, a slight decrease of \$1 million, or 0.3%, from the December 31, 2007 balance of \$392 million. Declines of \$3.3 million in non-interest bearing demand deposits, \$3.7 million in interest bearing transaction accounts (NOW), and \$6.7 million in time deposits were mostly offset by an increase of \$12.7 million in money market and savings accounts. The decrease in time deposits relates to the maturity of higher rate promotional certificates of deposit. At March 31, 2008 we had \$25 million in promotional certificates of deposit down from \$59 million at December 31, 2007. The increase in money market and savings accounts includes \$3.3 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 31% of total deposits as of March 31, 2008 down from 33% as of December 31, 2007. Non-interest bearing demand deposits were 28% of total deposits at March 31, 2008 and December 31, 2007. Interest bearing transaction accounts decreased to 18% of total deposits at March 31, 2008, down from 19% at December 31, 2007. Money market and savings deposits increased to 23% of total deposits at March 31, 2008 up from 20% at December 31, 2007.

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Short-term borrowings. There were no short-term borrowings at March 31, 2008. Short-term borrowings at December 31, 2007 consisted of \$7,500,000 in one day Federal Home Loan Bank (FHLB) advances.

CAPITAL RESOURCES

Shareholders' equity as of March 31, 2008 increased \$64 thousand to \$37.2 million up from \$37.1 million as of December 31, 2007. This increase was the result of earnings during the first quarter of 2008 of \$576 thousand, an increase in accumulated other comprehensive income of \$341 thousand (from a loss of \$107 thousand to income of \$234 thousand), stock-based compensation expense of \$69 thousand and \$3 thousand related to the exercise of stock options. Mostly offsetting these increase in shareholders' equity were \$505 thousand related to the repurchase of stock under the Company's stock buyback plan and a \$420 thousand cumulative-effect adjustment related to the 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 quarter of 2008 the Company repurchased 39,810 shares at an average cost, including commission, of \$12.69 per share for a total cost of \$505 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 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. 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 March 31, 2008.

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

| | March 31, 2008 | | December 31, 2007 | |
|--|------------------|--------------|-------------------|--------------|
| | Amount | Ratio | Amount | Ratio |
| Tier 1 Leverage Ratio | | | | |
| Plumas Bancorp and Subsidiary | \$ 46,008 | 10.3% | \$ 46,209 | 10.0% |
| Minimum regulatory requirement | 17,871 | 4.0% | 18,439 | 4.0% |
| Plumas Bank | 43,918 | 9.8% | 45,415 | 9.9% |
| Minimum requirement for Well-Capitalized institution | 22,311 | 5.0% | 23,024 | 5.0% |
| Minimum regulatory requirement | 17,849 | 4.0% | 18,419 | 4.0% |
| Tier 1 Risk-Based Capital Ratio | | | | |
| Plumas Bancorp and Subsidiary | 46,008 | 11.8% | 46,209 | 11.6% |
| Minimum regulatory requirement | 15,590 | 4.0% | 15,881 | 4.0% |
| Plumas Bank | 43,918 | 11.3% | 45,415 | 11.5% |
| Minimum requirement for Well-Capitalized institution | 23,351 | 6.0% | 23,790 | 6.0% |
| Minimum regulatory requirement | 15,567 | 4.0% | 15,860 | 4.0% |
| Total Risk-Based Capital Ratio | | | | |
| Plumas Bancorp and Subsidiary | 50,696 | 13.0% | 50,475 | 12.7% |
| Minimum regulatory requirement | 31,180 | 8.0% | 31,763 | 8.0% |
| Plumas Bank | 48,606 | 12.5% | 49,681 | 12.5% |
| Minimum requirement for Well-Capitalized institution | 38,919 | 10.0% | 39,651 | 10.0% |
| Minimum regulatory requirement | 31,135 | 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 March 31, 2008 the Company had no outstanding borrowings from the Federal Home Loan Bank or from its correspondent banks.

Customer deposits are the Company's primary source of funds. Total deposits were \$391 million as of March 31, 2008, a decrease of \$1 million, or 0.3%, 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 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 March 31, 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 control over financial reporting or in other factors that could significantly affect internal controls that occurred during the Company's fiscal quarter ended March 31, 2008.

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.

Table of Contents**ITEM 2. UNREGISTERD SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

- (a) None.
 (b) None.
 (c) Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3) | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3) |
|---------------------------------------|---|---|---|---|
| January 1, 2008 to January 31, 2008 | 1,878 | \$ 11.99 | 1,878 | 242,122 |
| February 1, 2008 to February 29, 2008 | 17,040 | \$ 12.59 | 17,040 | 225,082 |
| March 1, 2008 to March 31, 2008 | 20,892 | \$ 12.83 | 20,892 | 204,190 |
| Total | 39,810 | \$ 12.69 | 39,810 | |

(1) The difference between total number of shares purchased and the total number of shares purchased as part of publicly announced programs, if any, is due to repurchases of common stock from certain employees in connection with their exercise of stock options.

(2) Includes commissions.

(3)

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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

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

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

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- 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.
- 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.

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- 10.19 Consulting Agreement of Daniel E. West dated May 10, 2000, is included as Exhibit 10.19 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.20 Split Dollar Agreements of Robert T. Herr dated September 15, 2004, is included as Exhibit 10.20 to the Registrant's 8-K filed on September 17, 2004, which is incorporated by this reference herein.
- 10.21 Amended and Restated Director Retirement Agreement of Alvin G. Blickenstaff dated April 19, 2000, is included as Exhibit 10.21 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.22 Consulting Agreement of Alvin G. Blickenstaff dated May 8, 2000, is included as Exhibit 10.22 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.24 Amended and Restated Director Retirement Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.24 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.25 Consulting Agreement of Gerald W. Fletcher dated May 10, 2000, is included as Exhibit 10.25 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.27 Amended and Restated Director Retirement Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.27 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.28 Consulting Agreement of Arthur C. Grohs dated May 9, 2000, is included as Exhibit 10.28 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.33 Amended and Restated Director Retirement Agreement of Terrance J. Reeson dated April 19, 2000, is included as Exhibit 10.33 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.34 Consulting Agreement of Terrance J. Reeson dated May 10, 2000, is included as Exhibit 10.34 to the Registrant's 10-QSB for June 30, 2002, which is incorporated by this reference herein.
- 10.39 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.

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- 10.46 1991 Stock Option Plan as amended is included as Exhibit 10.46 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
- 10.47 Specimen form of Incentive Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.47 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.

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- 10.48 Specimen form of Non-Qualified Stock Option Agreement under the 1991 Stock Option Plan is included as Exhibit 10.48 to the Registrant's 10-Q for September 30, 2004, which is incorporated by this reference herein.
- 10.49 Amended and Restated Plumas Bancorp Stock Option Plan is included as Exhibit 10.49 to the Registrant's 10-Q for September 30, 2006, which is incorporated by this reference herein.
- 10.59 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.
- 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 Rule 13a-14(a) [Section 302] Certification of Principal Financial Officer dated May 9, 2008.
- 31.2 Rule 13a-14(a) [Section 302] Certification of Principal Executive Officer dated May 9, 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 May 9, 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 May 9, 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: May 9, 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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