

PLUMAS BANCORP
Form 10-Q
November 06, 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 September 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 November 3, 2008
4,780,433 shares

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

(In thousands, except share data)

	September 30, 2008	December 31, 2007
Assets		
Cash and due from banks	\$ 17,003	\$ 13,207
Federal funds sold	12,100	
Cash and cash equivalents	29,103	13,207
Investment securities (fair value of \$42,340 at September 30, 2008 and \$55,367 at December 31, 2007)	42,396	55,292
Loans, less allowance for loan losses of \$4,896 at September 30, 2008 and \$4,211 at December 31, 2007 (Notes 3 and 4)	353,648	349,302
Premises and equipment, net	16,017	14,666
Intangible assets, net	865	1,037
Bank owned life insurance	9,680	9,428
Real estate and vehicles acquired through foreclosure	2,412	537
Accrued interest receivable and other assets	9,378	9,646
Total assets	\$ 463,499	\$ 453,115
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	\$ 118,175	\$ 111,240
Interest bearing	265,040	280,700
Total deposits	383,215	391,940
Short-term borrowings	27,000	7,500
Accrued interest payable and other liabilities	5,899	6,226
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	426,424	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 4,793,713 shares at September 30, 2008 and 4,869,130 shares at	5,203	5,042

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December 31, 2007

Retained earnings	31,805	32,204
Accumulated other comprehensive income (loss) (Note 6)	67	(107)
Total shareholders' equity	37,075	37,139
Total liabilities and shareholders' equity	\$ 463,499	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest Income:				
Interest and fees on loans	\$ 5,978	\$ 6,898	\$ 18,169	\$ 20,908
Interest on investment securities:				
Taxable	324	448	1,092	1,413
Exempt from Federal income taxes	128	131	383	397
Interest on Federal funds sold	1	83	3	91
Total interest income	6,431	7,560	19,647	22,809
Interest Expense:				
Interest on deposits	975	1,864	3,646	5,348
Interest on short-term borrowings	79	29	174	465
Interest on junior subordinated deferrable interest debentures	144	213	473	627
Other	4	6	13	17
Total interest expense	1,202	2,112	4,306	6,457
Net interest income before provision for loan losses	5,229	5,448	15,341	16,352
Provision for Loan Losses	700	125	1,690	500
Net interest income after provision for loan losses	4,529	5,323	13,651	15,852
Non-Interest Income:				
Service charges	1,015	1,009	2,937	2,766
Earnings on Bank owned life insurance policies	107	105	314	311
Impairment loss on investment security	(415)		(415)	
Other	303	314	890	918
Total non-interest income	1,010	1,428	3,726	3,995
Non-Interest Expenses:				
Salaries and employee benefits	2,799	2,675	8,265	8,142
Occupancy and equipment	939	870	2,873	2,659
Other	1,241	1,139	3,755	3,631
Total non-interest expenses	4,979	4,684	14,893	14,432
Income before provision for income taxes	560	2,067	2,484	5,415
Provision for Income Taxes	170	789	822	2,055

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Net income	\$	390	\$	1,278	\$	1,662	\$	3,360
Basic earnings per share (Note 5)	\$	0.08	\$	0.26	\$	0.34	\$	0.67
Diluted earnings per share (Note 5)	\$	0.08	\$	0.26	\$	0.34	\$	0.67
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)

	For the Nine Months Ended September 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 1,662	\$ 3,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,690	500
Change in deferred loan origination costs/fees, net	235	357
Depreciation and amortization	1,475	1,665
Stock-based compensation expense	218	209
Amortization of investment security premiums	46	125
Accretion of investment security discounts	(43)	(47)
Impairment loss on investment security	415	
Net loss on disposal/sale of premises and equipment	13	32
Net loss (gain) on sale of vehicles owned	17	(24)
Earnings on Bank owned life insurance policies	(252)	(251)
Write-down of other real estate to market value	39	
Increase in accrued interest receivable and other assets	(97)	(456)
(Decrease) increase in accrued interest payable and other liabilities	(751)	62
Net cash provided by operating activities	4,667	5,532
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	13,475	21,375
Proceeds from matured and called held-to-maturity investment securities	100	435
Purchases of available-for-sale investment securities	(2,990)	(11,009)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	2,190	2,288
Net (increase) decrease in loans	(8,500)	1,295
Proceeds from sale of other vehicles	298	354
Purchase of premises and equipment	(2,425)	(835)
Net cash provided by investing activities	2,148	13,903

Continued on next page.

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

	For the Nine Months Ended September 30,	
	2008	2007
Cash Flows from Financing Activities:		
Net increase (decrease) in demand, interest bearing and savings deposits	\$ 17,026	\$ (15,973)
Net (decrease) increase in time deposits	(25,751)	30,618
Net increase (decrease) in short-term borrowings	19,500	(20,000)
Net proceeds from exercise of stock options	21	40
Payment of cash dividends	(770)	(750)
Repurchase and retirement of common stock	(945)	(1,451)
Net cash provided by (used in) financing activities	9,081	(7,516)
Increase in cash and cash equivalents	15,896	11,919
Cash and Cash Equivalents at Beginning of Year	13,207	11,293
Cash and Cash Equivalents at End of Period	\$ 29,103	\$ 23,212
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	\$ 4,639	\$ 5,995
Income taxes	\$ 1,090	\$ 2,475
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	\$ 2,229	\$ 534
Net change in unrealized loss on available-for-sale securities	\$ 174	\$ 367
Non-Cash Financing Activities:		
Common stock retired in connection with the exercise of stock options	\$	\$ 49
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 September 30, 2008 and December 31, 2007 and its results of operations for the three-month and nine-month periods ended September 30, 2008 and 2007 and its cash flows for the nine-month periods ended September 30, 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 (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 nine-month periods ended September 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.

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Outstanding loans are summarized below, in thousands:

	September 30, 2008	December 31, 2007
Commercial	\$ 33,624	\$ 39,584
Agricultural	34,903	35,762
Real estate mortgage	152,745	128,357
Real estate construction and land development	75,383	76,478
Consumer	61,560	72,768
	358,215	352,949
Deferred loan costs, net	329	564
Allowance for loan losses	(4,896)	(4,211)
	\$ 353,648	\$ 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 \$81,743,000 and \$96,867,000 and stand-by letters of credit of \$2,667,000 and \$655,000 at September 30, 2008 and December 31, 2007, respectively.

Of the loan commitments outstanding at September 30, 2008, \$16,487,000 are real estate construction loan commitments that are expected to fund within the next twelve months. The remaining commitments primarily relate to revolving lines of credit or other commercial loans, and many of these are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Each loan commitment and the amount and type of collateral obtained, if any, are evaluated on an individual basis. Collateral held varies, but may include real property, bank deposits, debt or equity securities or business assets.

Stand-by letters of credit are conditional commitments written to guarantee the performance of a customer to a third party. These guarantees are primarily related to the purchases of inventory by commercial customers and are typically short-term in nature. Credit risk is similar to that involved in extending loan commitments to customers and accordingly, evaluation and collateral requirements similar to those for loan commitments are used. The deferred liability related to the Company's stand-by letters of credit was not significant at September 30, 2008 or December 31, 2007.

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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 September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Earnings Per Share:				
Basic earnings per share	\$ 0.08	\$ 0.26	\$ 0.34	\$ 0.67
Diluted earnings per share	\$ 0.08	\$ 0.26	\$ 0.34	\$ 0.67
Weighted Average Number of Shares Outstanding:				
(in thousands)				
Basic shares	4,809	4,945	4,830	4,980
Diluted shares	4,820	4,976	4,852	5,025

Stock options not included in the computation of diluted earnings per share, due to their antidilutive effect, were 453,000 and 276,000 for the three months ended September 30, 2008 and 2007, respectively and 374,000 and 186,000 for the nine months ended September 30, 2008 and 2007, respectively.

6. COMPREHENSIVE INCOME

Total comprehensive income for the three months ended September 30, 2008 and 2007 totaled \$491,000 and \$1,558,000, respectively. Comprehensive income is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were \$101,000 and \$280,000 for the three months ended September 30, 2008 and 2007, respectively, together with net income.

Total comprehensive income for the nine months ended September 30, 2008 and 2007 totaled \$1,836,000 and \$3,727,000, respectively. Comprehensive income is comprised of unrealized gains, net of taxes, on available-for-sale investment securities, which were \$174,000 and \$367,000 for the nine months ended September 30, 2008 and 2007, respectively, together with net income.

At September 30, 2008 and December 31, 2007, accumulated other comprehensive income (loss), net of taxes, totaled \$67,000 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 403,589 shares are available for future grants under incentive and nonstatutory agreements as of September 30, 2008. The Company granted 90,300 and 155,700 options during the nine months ended September 30, 2008 and 2007 respectively. The weighted average grant date fair value of options granted for the nine months ended September 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 \$74,000 and \$78,000 for the quarters ended September 30, 2008 and 2007, respectively. The associated future income tax benefit recognized was \$6,000 and \$7,000 for the quarters ended September 30, 2008 and 2007, respectively. Compensation cost related to stock options recognized in operating results under SFAS No. 123R was \$218,000 and \$209,000 in the nine months ended September 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 \$18,000 and \$19,000 for the nine months ended September 30, 2008 and 2007, respectively.

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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.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Intrinsic Value (in thousands)
Options outstanding at December 31, 2007	395,772	\$ 13.37		
Options granted	90,300	12.40		
Options exercised	(3,200)	6.59		
Options cancelled	(3,000)	14.53		
Options outstanding at September 30, 2008	479,872	\$ 13.23	5.8	\$ 141
Options exercisable at September 30, 2008	243,381	\$ 11.98	4.8	\$ 141
Expected to vest after September 30, 2008	236,491	\$ 14.52	6.7	\$

The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the nine months ended September 30, 2008 was \$18,000. During the nine months ended September 30, 2008, the amount of cash received from the exercise of stock options was \$21,000. At September 30, 2008, there was \$628,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 2.5 years. The total fair value of options vested during the nine months ended September 30, 2008 was \$176,000.

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 nine months ended September 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 nine 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 September 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 an asset or liability.

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

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

	September 30, 2008	Fair Value Measurements at September 30, 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	\$ 29,010	\$ 16,257	\$ 12,753	\$

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.

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

Fair Value Measurements at September 30, 2008 Using		
Quoted Prices		
in		
Active Markets		
for	Significant Other	Significant
Identical Assets	Observable Inputs	