PLUMAS BANCORP
Form 10-Q
May 06, 2015
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, 2015

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO ___________

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 4, 2015.
4,806,039 shares

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2015	**December 31, 2014**
Assets		
Cash and cash equivalents	$48,633	$45,574
Investment securities available for sale	90,072	90,320
Loans, less allowance for loan losses of $5,722 at March 31, 2015 and $5,451 at December 31, 2014	379,231	366,787
Premises and equipment, net	11,470	11,642
Bank owned life insurance	11,931	11,845
Real estate and vehicles acquired through foreclosure	3,683	3,603
Accrued interest receivable and other assets	8,830	9,091
Total assets	$553,850	$538,862
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$183,972	$180,649
Interest bearing	299,692	287,242
Total deposits	483,664	467,891
Repurchase agreements	6,944	9,626
Note payable	1,000	1,000
Subordinated debenture	7,493	7,454
Accrued interest payable and other liabilities	6,328	6,084
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	515,739	502,365
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding – 4,803,239 shares at March 31, 2015 and 4,799,139 at December 31, 2014	6,345	6,312

Retained earnings	31,460	30,245
Accumulated other comprehensive income (loss), net	306	(60)
Total shareholders' equity	38,111	36,497
Total liabilities and shareholders' equity	$553,850	$538,862

See notes to unaudited condensed consolidated financial statements.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31,	
	2015	**2014**
Interest Income:		
Interest and fees on loans	$4,943	$4,608
Interest on investment securities	398	374
Other	35	30
Total interest income	5,376	5,012
Interest Expense:		
Interest on deposits	124	133
Interest on note payable	11	32
Interest on subordinated debt	188	188
Interest on junior subordinated deferrable interest debentures	74	74
Other	2	2
Total interest expense	399	429
Net interest income before provision for loan losses	4,977	4,583
Provision for Loan Losses	300	150
Net interest income after provision for loan losses	4,677	4,433
Non-Interest Income:		
Service charges	938	994
Gain on sale of loans	657	332
Gain on sale of investments	30	-
Other	420	362
Total non-interest income	2,045	1,688
Non-Interest Expenses:		
Salaries and employee benefits	2,718	2,369
Occupancy and equipment	700	779
Other	1,288	1,413
Total non-interest expenses	4,706	4,561
Income before provision for income taxes	2,016	1,560
Provision for Income Taxes	801	618
Net income	$1,215	$942
Basic earnings per common share	$0.25	$0.20
Diluted earnings per common share	$0.24	$0.19

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	2015	**2014**
Net income	$1,215	$942
Other comprehensive income:		
Change in net unrealized gain	653	538
Less: reclassification adjustments for net gains included in net income	(30)	-
Net unrealized holding gain	623	538
Related tax effect:		
Change in net unrealized gain	(269)	(222)
Reclassification of net gains included in net income	12	-
Income tax effect	(257)	(222)
Other comprehensive income	366	316
Total comprehensive income	$1,581	$1,258

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	2015	**2014**
Cash Flows from Operating Activities:		
Net income	$1,215	$942
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300	150
Change in deferred loan origination costs/fees, net	(148)	(185)
Depreciation and amortization	327	325
Stock-based compensation expense	29	9
Gain on sale of Investments	(30)	-
Amortization of investment security premiums	127	118
Gain on sale of OREO and other vehicles	(17)	(70)
Gain on sale of loans held for sale	(657)	(332)
Loans originated for sale	(9,134)	(2,965)
Proceeds from loan sales	9,485	5,318
Provision from change in OREO valuation	(129)	135
Earnings on bank-owned life insurance	(85)	(87)
Decrease in accrued interest receivable and other assets	134	360
Increase (decrease) in accrued interest payable and other liabilities	245	(52)
Net cash provided by operating activities	1,662	3,666
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	-	13,045
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	2,690	2,049
Purchases of available-for-sale securities	(8,584)	(13,159)
Proceeds from sale of available-for-sale securities	6,669	-
Net increase in loans	(12,750)	(8,519)
Proceeds from sale of OREO	301	431
Proceeds from sale of other vehicles	73	93
Purchase of premises and equipment	(104)	(15)
Net cash used in investing activities	(11,705)	(6,075)

Continued on next page.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

	For the Three Months Ended March 31,	
	2015	**2014**
Cash Flows from Financing Activities:		
Net increase in demand, interest bearing and savings deposits	$17,028	$7,137
Net decrease in time deposits	(1,255)	(1,392)
Net decrease in securities sold under agreements to repurchase	(2,683)	(3,045)
Proceeds from exercise of stock options	12	6
Net cash provided by financing activities	13,102	2,706
Increase in cash and cash equivalents	3,059	297
Cash and Cash Equivalents at Beginning of Year	45,574	49,917
Cash and Cash Equivalents at End of Period	$48,633	$50,214
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$355	$384
Income taxes	$155	$120
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$309	$158

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

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

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. The Bank's administrative headquarters is in Quincy, California. In addition, the Bank operates a loan administrative and lending office in Reno, Nevada, lending offices specializing in government-guaranteed lending in Auburn, California and Beaverton, Oregon and a commercial/agricultural lending office in Chico, California. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

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, 2015 and the results of its operations and its cash flows for the three-month periods ended March 31, 2015 and 2014. Our condensed consolidated balance sheet at December 31, 2014 is derived from audited financial statements. Certain reclassifications have been made to prior period's balances to conform to classifications used in 2015.

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 2014 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month period ended March 31, 2015 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.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at March 31, 2015 and December 31, 2014 consisted of the following, in thousands:

Available-for-Sale:	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$6,504	$ 47	$ (2)	$ 6,549
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	69,846	462	(298)	70,010
Obligations of states and political subdivisions	13,201	320	(8)	13,513
	$89,551	$ 829	$ (308)	$ 90,072

Net unrealized gain on available-for-sale investment securities totaling $521,000 were recorded, net of $215,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at March 31, 2015. During the three months ended March 31, 2015 the Company sold eight available-for-sale investment securities for total proceeds of $6,669,000 recording a $30,000 gain on sale. The Company realized a gain on sale from five of these securities totaling $37,000 and a loss on sale on three securities of $7,000.

Available-for-Sale	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$7,003	$ 19	$ (20)	$ 7,002
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	70,610	192	(522)	70,280
Obligations of states and political subdivisions	12,307	234	(9)	12,532
Corporate debt	502	4	-	506
	$90,422	$ 449	$ (551)	$ 90,320

Net unrealized loss on available-for-sale investment securities totaling $102,000 were recorded, net of $42,000 in tax benefits, as accumulated other comprehensive income within shareholders' equity at December 31, 2014. During the year ended December 31, 2014 the Company sold fourteen available-for-sale investment securities for total proceeds of $16,325,000 recording a $128,000 gain on sale. The Company realized a gain on sale from thirteen of these securities totaling $134,000 and a loss on sale on one security of $6,000.

There were no transfers of available-for-sale investment securities during the three months ended March 31, 2015 and twelve months ended December 31, 2014. There were no securities classified as held-to-maturity at March 31, 2015 or December 31, 2014.

Investment securities with unrealized losses at March 31, 2015 and December 31, 2014 are summarized and classified according to the duration of the loss period as follows, in thousands:

March 31, 2015

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government- sponsored agencies	$998	$ 2			$998	$ 2
U.S. Government agencies collateralized by mortgage obligations-residential	11,757	45	$14,946	$ 253	26,703	298
Obligations of states and political subdivisions	866	8	-	-	866	8
	$13,621	$ 55	$14,946	$ 253	$28,567	$ 308

December 31, 2014

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government- sponsored agencies	$994	$ 6	$2,985	$ 14	$3,979	$ 20
U.S. Government agencies collateralized by mortgage obligations-residential	4,504	17	28,643	505	33,147	522
Obligations of states and political subdivisions	2,014	9	-	-	2,014	9
	$7,512	$ 32	$31,628	$ 519	$39,140	$ 551

At March 31, 2015, the Company held 120 securities of which 29 were in a loss position. Of the securities in a loss position, 14 were in a loss position for less than twelve months. Of the 120 securities 6 are U.S. Government-sponsored agencies 59 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 55 were obligations of states and political subdivisions. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. When analyzing an issuer’s financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company’s intent and ability to hold the security to recovery. As of March 31, 2015, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company’s evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of March 31, 2015 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at March 31, 2015 by contractual maturity are shown below, in thousands.

	Amortized Cost	Estimated Fair Value
Within one year	$ -	$ -
After one year through five years	6,504	6,549
After five years through ten years	10,617	10,869
After ten years	2,584	2,644
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	69,846	70,010
	$ 89,551	$ 90,072

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties. Investment securities with amortized costs totaling $58,372,000 and $57,793,000 and estimated fair values totaling $58,613,000 and $57,636,000 March 31, 2015 and December 31, 2014, respectively, were pledged to secure deposits and repurchase agreements.

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	March 31, 2015	December 31, 2014
Commercial	$32,193	$31,465
Agricultural	34,640	35,355
Real estate - residential	28,813	29,284
Real estate – commercial	174,508	163,306
Real estate – construction and land development	24,936	24,572
Equity lines of credit	38,251	38,972
Auto	46,571	44,618
Other	3,124	2,818
	383,036	370,390
Deferred loan costs, net	1,917	1,848
Allowance for loan losses	(5,722)	(5,451)
	$379,231	$366,787

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

	March 31, 2015	December 31, 2014
Balance, beginning of year	$5,451	$ 5,517
Provision charged to operations	300	1,100
Losses charged to allowance	(175)	(1,913)
Recoveries	146	747
Balance, end of year	$5,722	$ 5,451

The recorded investment in impaired loans totaled $7,943,000 and $8,582,000 at March 31, 2015 and December 31, 2014, respectively. The Company had specific allowances for loan losses of $579,000 on impaired loans of $3,100,000 at March 31, 2015 as compared to specific allowances for loan losses of $564,000 on impaired loans of $2,401,000 at December 31, 2014. The balance of impaired loans in which no specific reserves were required totaled $4,843,000 and $6,181,000 at March 31, 2015 and December 31, 2014, respectively. The average recorded investment in impaired loans for the three months ended March 31, 2015 and March 31, 2014 was $7,952,000 and $8,713,000, respectively. The Company recognized $30,000 and $95,000 in interest income for impaired loans during the three months ended March 31, 2015 and 2014, respectively. Of these amounts, $0 and $50,000 were recognized on nonaccrual loans accounted for on a cash basis, respectively.

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms to include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

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

The carrying value of troubled debt restructurings at March 31, 2015 and December 31, 2014 was $5,655,000 and $5,738,000, respectively. The Company has allocated $349,000 and $319,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2015 and December 31, 2014, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at March 31, 2015 and December 31, 2014.

There were no troubled debt restructurings that occurred during the three months ending March 31, 2015 and 2014, respectively.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ended March 31, 2015 and 2014, respectively.

The terms of certain other loans were modified during the three months ending March 31, 2015 and year ending December 31, 2014 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of March 31, 2015 and December 31, 2014 of $11 million and $27 million, respectively.

These loans which were modified during the three months ended March 31, 2015 and year ended December 31, 2014 did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment ranging from 30 days to 3 months that was considered to be insignificant or the borrower was not considered to be experiencing financial difficulties.

At March 31, 2015 and December 31, 2014, nonaccrual loans totaled $5,997,000 and $6,625,000, respectively. Interest foregone on nonaccrual loans totaled $118,000 and $101,000 for the three months ended March 31, 2015 and 2014, respectively. Loans past due 90 days or more and on accrual status totaled $0 at March 31, 2015 and December 31, 2014.

Salaries and employee benefits totaling $317,000 and $341,000 have been deferred as loan origination costs during the three months ended March 31, 2015 and 2014, respectively.

The Company assigns a risk rating to all loans, with the exception of automobile and other loans and periodically, but not less than annually, performs detailed reviews of all such loans over $100,000 to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company’s regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Watch – A Watch loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company’s credit position at some future date. Watch loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

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

March 31, 2015

Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$30,025	$ 33,902	$ 27,648	$ 167,870	$ 23,265	$37,736	$320,446
Watch	1,413	345	84	2,277	620	145	4,884
Substandard	755	393	1,081	4,361	1,051	370	8,011
Doubtful	-	-	-	-	-	-	-
Total	$32,193	$ 34,640	$ 28,813	$ 174,508	$ 24,936	$38,251	$333,341

December 31, 2014

Commercial Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
Grade:							
Pass	$30,176	$ 34,609	$ 28,048	$ 156,329	$ 22,924	$38,373	$310,459
Watch	789	355	233	2,297	537	146	4,357
Substandard	500	391	1,003	4,680	1,111	453	8,138
Doubtful	-	-	-	-	-	-	-
Total	$31,465	$ 35,355	$ 29,284	$ 163,306	$ 24,572	$38,972	$322,954

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity March 31, 2015			**Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2014**		
	Auto	Other	Total	Auto	Other	Total
Grade:						
Performing	$46,493	$3,109	$49,602	$44,523	$2,805	$47,328
Non-performing	78	15	93	95	13	108
Total	$46,571	$3,124	$49,695	$44,618	$2,818	$47,436

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

	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Auto	Other	Total
<u>Three months ended 3/31/15:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	$ 574	$ 225	$ 379	$ 1,701	$ 1,227	$ 691	$ 581	$ 73	$ 5,451
Charge-offs	(40)	-	(5)	-	(1)	(8)	(111)	(10)	(175)
Recoveries	81	-	2	-	-	2	43	18	146
Provision	(33)	(3)	43	262	2	(98)	114	13	300
Ending balance	$ 582	$ 222	$ 419	$ 1,963	$ 1,228	$ 587	$ 627	$ 94	$ 5,722
<u>Three months ended 3/31/14:</u>									
<u>Allowance for Loan Losses</u>									
Beginning balance	$ 785	$ 164	$ 638	$ 1,774	$ 944	$ 613	$ 449	$ 150	$ 5,517
Charge-offs	(86)	-	-	-	-	(11)	(71)	(27)	(195)
Recoveries	13	-	19	1	162	12	12	24	243
Provision	(170)	13	(53)	187	60	97	39	(23)	150
Ending balance	$ 542	$ 177	$ 604	$ 1,962	$ 1,166	$ 711	$ 429	$ 124	$ 5,715
<u>March 31, 2015:</u>									
<u>Allowance for Loan Losses</u>									
Ending balance: individually evaluated for impairment	$ -	$ -	$ 63	$ 125	$ 287	$ 86	$ 3	$ 15	$ 579
Ending balance: collectively evaluated for impairment	$ 582	$ 222	$ 356	$ 1,838	$ 941	$ 501	$ 624	$ 79	$ 5,143
<u>Loans</u>									
Ending balance	$ 32,193	$ 34,640	$ 28,813	$ 174,508	$ 24,936	$ 38,251	$ 46,571	$ 3,124	$ 383,036
Ending balance: individually evaluated for impairment	$ 70	$ 605	$ 2,311	$ 3,339	$ 1,191	$ 334	$ 78	$ 15	$ 7,943
	$ 32,123	$ 34,035	$ 26,502	$ 171,169	$ 23,745	$ 37,917	$ 46,493	$ 3,109	$ 375,093

Ending balance: collectively evaluated for impairment									
December 31, 2014:									
Allowance for Loan Losses									
Ending balance: individually evaluated for impairment	$ -	$ -	$ 51	$ 65	$ 274	$ 174	$ -	$ -	$ 564
Ending balance: collectively evaluated for impairment	$ 574	$ 225	$ 328	$ 1,636	$ 953	$ 517	$ 581	$ 73	$ 4,887
Loans									
Ending balance	$ 31,465	$ 35,355	$ 29,284	$ 163,306	$ 24,572	$ 38,972	$ 44,618	$ 2,818	$ 370,390
Ending balance: individually evaluated for impairment	$ 55	$ 605	$ 2,518	$ 3,643	$ 1,252	$ 415	$ 93	$ 1	$ 8,582
Ending balance: collectively evaluated for impairment	$ 31,410	$ 34,750	$ 26,766	$ 159,663	$ 23,320	$ 38,557	$ 44,525	$ 2,817	$ 361,808

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

March 31, 2015	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial:						
Commercial	$ 22	$ -	$ 53	$75	$32,118	$32,193
Agricultural	-	-	342	342	34,298	34,640
Real estate – construction	-	-	1,051	1,051	23,885	24,936
Real estate	339	-	3,339	3,678	170,830	174,508
Residential:						
Real estate	1,521	-	785	2,306	26,507	28,813
Equity LOC	157	-	334	491	37,760	38,251
Consumer:						
Auto	674	-	78	752	45,819	46,571
Other	14	-	15	29	3,095	3,124
Total	$ 2,727	$ -	$ 5,997	$8,724	$374,312	$383,036

December 31, 2014	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Commercial:						
Commercial	$131	$ -	$ 38	$169	$31,296	$31,465
Agricultural	-	-	339	339	35,016	35,355
Real estate – construction	345	-	1,111	1,456	23,116	24,572
Real estate	-	-	3,643	3,643	159,663	163,306
Residential:						
Real estate	292	-	985	1,277	28,007	29,284
Equity LOC	194	-	415	609	38,363	38,972
Consumer:						
Auto	601	-	93	694	43,924	44,618
Other	43	-	1	44	2,774	2,818
Total	$1,606	$ -	$ 6,625	$8,231	$362,159	$370,390

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The following tables show information related to impaired loans at the dates indicated, in thousands:

As of March 31, 2015:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 70	$ 70	$	$ 58	-
Agricultural	605	605		605	5
Real estate – construction	445	445		449	2
Real estate – commercial	2,105	2,751		2,121	-
Real estate – residential	1,422	1,433		1,419	20
Equity Lines of Credit	127	127		119	-
Auto	69	69		73	-
Other	-	-		-	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Agricultural	-	-	-	-	-
Real estate – construction	746	746	287	751	-
Real estate – commercial	1,234	1,234	125	1,243	-
Real estate – residential	889	889	63	889	3
Equity Lines of Credit	207	207	86	207	-
Auto	9	9	3	7	-
Other	15	15	15	11	-
Total:					
Commercial	$ 70	$ 70	$ -	$ 58	$ -
Agricultural	605	605	-	605	5
Real estate – construction	1,191	1,191	287	1,200	2
Real estate – commercial	3,339	3,985	125	3,364	-
Real estate – residential	2,311	2,322	63	2,308	23
Equity Lines of Credit	334	334	86	326	-
Auto	78	78	3	80	-
Other	15	15	15	11	-
Total	$ 7,943	$ 8,600	$ 579	$ 7,952	$ 30

As of December 31, 2014:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 55	$ 55		$ 61	$ 1
Agricultural	605	605		605	51
Real estate – construction	495	495		512	9
Real estate – commercial	3,389	4,036		2,460	-

Real estate – residential	1,422	1,433		1,443	80
Equity Lines of Credit	121	121		130	-
Auto	93	93		81	-
Other	1	1		-	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Agricultural	-	-	-	-	-
Real estate – construction	757	757	274	778	-
Real estate – commercial	254	254	65	589	-
Real estate – residential	1,096	1,102	51	1,112	11
Equity Lines of Credit	294	294	174	299	-
Auto	-	-	-	-	-
Other	-	-	-	-	-
Total:					
Commercial	$ 55	$ 55	$ -	$ 61	$ 1
Agricultural	605	605	-	605	51
Real estate – construction	1,252	1,252	274	1,290	9
Real estate – commercial	3,643	4,290	65	3,049	-
Real estate – residential	2,518	2,535	51	2,555	91
Equity Lines of Credit	415	415	174	429	-
Auto	93	93	-	81	-
Other	1	1	-	-	-
Total	$ 8,582	$ 9,246	$ 564	$ 8,070	$ 152

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5. 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 $86,879,000 and $89,735,000 and stand-by letters of credit of $210,000 and $0 at March 31, 2015 and December 31, 2014, respectively.

Of the loan commitments outstanding at March 31, 2015, $8,462,000 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, 2015 or December 31, 2014.

6. 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,	
(In thousands, except per share data)	2015	2014
Net Income:		
Net income	$1,215	$942
Earnings Per Share:		
Basic earnings per share	$0.25	$0.20
Diluted earnings per share	$0.24	$0.19
Weighted Average Number of Shares Outstanding:		
Basic shares	4,799	4,788
Diluted shares	5,047	4,929

Shares of common stock issuable under stock options and warrants 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 and warrants not included in the computation of diluted earnings per share, due to shares not being in-the-money and having an antidilutive effect, were approximately 55,000 and 161,000 for the three month periods ended March 31, 2015 and 2014, respectively.

7. STOCK-BASED COMPENSATION

Stock Options

In 2001, the Company established a Stock Option Plan for which 229,693 shares of common stock remain reserved for issuance to employees and directors and no shares are available for future grants as of March 31, 2015.

As of March 31, 2015, all remaining shares in this plan have vested and no compensation cost remains unrecognized.

The total fair value of options vested was $49,000 for the three months ended March 31, 2015 and 2014. The total intrinsic value of options at time of exercise was $26,000 and $6,000 for the three months ended March 31, 2015 and 2014, respectively.

Cash received from option exercises for the three months ended March 31, 2015 and 2014 were $12,000 and $6,000, respectively. There was no tax benefit realized for the tax deduction from options exercised during the three months ended March 31, 2015 and 2014.

A summary of the activity within the 2001 Stock Option Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
Options outstanding at January 1, 2015	306,393	$ 7.95		
Options cancelled	(72,600)	16.37		
Options exercised	(4,100)	2.95		
Options outstanding at March 31, 2015	229,693	$ 5.38	3.2	$ 1,134,000
Options exercisable at March 31, 2015	229,693	$ 5.38	3.2	$ 1,134,000

In May 2013, the Company established the 2013 Stock Option Plan for which 500,000 shares of common stock are reserved and 389,600 shares are available for future grants as of March 31, 2015. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash, with Company common stock previously acquired by the optionee and held by the optionee for a period of at least six months, in options of the Optionee that are fully vested and exercisable or in any combination of the foregoing. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. There were no options granted during the three months ended March 31, 2015 and 2014.

As of March 31, 2015, there was $172,000 of total unrecognized compensation cost related to non-vested, share-based compensation arrangements granted under the 2013 Plan. That cost is expected to be recognized over a weighted average period of 3.1 years.

A summary of the activity within the 2013 Plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Intrinsic Value
Options outstanding at January 1, 2015	110,400	$ 6.32		
Options outstanding at March 31, 2015	110,400	$ 6.32	7.1	$344,000
Options exercisable at March 31, 2015	-	N/A	N/A	N/A
Expected to vest after March 31, 2015	94,061	$ 6.32	7.1	$293,000

Compensation cost related to stock options recognized in operating results under the two stock option plans was $29,000 and $9,000 for the three months ended March 31, 2015 and 2014, respectively. The associated income tax benefit recognized was $2,000 for the three months ended March 31, 2015 and $0 for the three months ended March 31, 2014.

8. INCOME TAXES

The Company files its income taxes on a consolidated basis with its subsidiary. Income tax expense is the total of current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the consolidated income statement. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the three months ended March 31, 2015.

9. FAIR VALUE MEASUREMENT

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

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

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

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

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

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

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

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at March 31, 2015 and December 31, 2014 are as follows, in thousands:

	Carrying Value	Fair Value Measurements at March 31, 2015 Using:			
		Level 1	Level 2	Level 3	Total Fair Value
<u>Financial assets:</u>					
Cash and cash equivalents	$48,633	$48,633			$48,633
Investment securities	90,072		$90,072		90,072
Loans, net	379,231			$380,599	380,599
FHLB stock	2,380				N/A
Accrued interest receivable	1,674	2	239	1,433	1,674
<u>Financial liabilities:</u>					
Deposits	483,664	428,578	55,100		483,678
Repurchase agreements	6,944		6,944		6,944
Note payable	1,000			1,000	1,000
Subordinated debenture	7,493			7,500	7,500
Junior subordinated deferrable interest debentures	10,310			6,515	6,515
Accrued interest payable	77	8	51	18	77

	Carrying Value	Fair Value Measurements at December 31, 2014 Using: Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$45,574	$45,574			$45,574
Investment securities	90,320		$90,320		90,320
Loans, net	366,787			$368,442	368,442
FHLB stock	2,380				N/A
Accrued interest receivable	1,727		281	1,446	1,727
Financial liabilities:					
Deposits	467,891	411,549	56,364		467,913
Repurchase agreements	9,626		9,626		9,626
Note payable	1,000			1,000	1,000
Subordinated debenture	7,454			7,313	7,313
Junior subordinated deferrable interest debentures	10,310			6,636	6,636
Accrued interest payable	72	7	47	18	72

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used by management to estimate the fair value of its financial instruments:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment securities: Fair values for securities available for sale are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2).

Loans: Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FHLB stock: It was not practicable to determine the fair value of the FHLB stock due to restrictions placed on its transferability.

Deposits: The fair values disclosed for demand deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are, by definition, equal to the carrying amount at the reporting date resulting in a Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Repurchase agreements: The fair value of securities sold under repurchase agreements is estimated based on bid quotations received from brokers using observable inputs and are included as Level 2.

Note payable: The fair value of the Company’s Note Payable is estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Subordinated debentures and Junior subordinated deferrable interest debentures: The fair values of the Company’s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued interest and payable: The carrying amounts of accrued interest approximate fair value and are considered to be linked in classification to the asset or liability for which they relate.

Commitments to extend credit and letters of credit: The fair value of commitments are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not presented. Commitments to extend credit are primarily for variable rate loans and letters of credit.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. Those estimates that are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision are included in Level 3. Changes in assumptions could significantly affect the fair values presented.

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, 2015 and December 31, 2014, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and liabilities measured at fair value on a recurring basis at March 31, 2015 are summarized below, in thousands:

		Fair Value Measurements at March 31, 2015 Using		
	Total Fair Value	Quoted Prices in	Significant Other Observable Inputs	Significant Unobservable Inputs

		Active Markets for Identical Assets (Level 1)	(Level 2)	(Level 3)
Assets:				
U.S. Government-sponsored agencies	$6,549	$-	$ 6,549	$ -
U.S. Government-sponsored agencies collateralized by mortgage obligations-residential	70,010		70,010	
Obligations of states and political subdivisions	13,513		13,513	
	$90,072	$-	$ 90,072	$ -

Assets and liabilities measured at fair value on a recurring basis at December 31, 2014 are summarized below, in thousands:

		Fair Value Measurements at December 31, 2014 Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Government-sponsored agencies	$7,002	$-	$ 7,002	$ -
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	70,280		70,280	
Obligations of states and political subdivisions	12,532		12,532	
Corporate debt	506		506	
	$90,320	$-	$ 90,320	$ -

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 or matrix pricing. There were no changes in the valuation techniques used during 2015 or 2014. Transfers between hierarchy measurement levels are recognized by the Company as of the beginning of the reporting period. Changes in fair market value are recorded in other comprehensive income.

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2015 are summarized below, in thousands:

		Fair Value Measurements at March 31, 2015 Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Three Months Ended March 31, 2015 Total Gains (Losses)
Assets:					
Impaired loans:					
Commercial	$-	$-	$ -	$ -	$ -
Agricultural	-			-	-
Real estate – residential	621			621	(17)
Real estate – commercial	1,279			1,279	-
Real estate – construction and land development	27			27	-
Equity lines of credit	82			82	-
Auto	-			-	-
Other	-			-	-
Total impaired loans	2,009	-			