PLUMAS BANCORP
Form 10-Q
May 09, 2007

Table of Contents

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

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED March 31, 2007

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

COMMISSION FILE NUMBER: 000-49883
PLUMAS BANCORP
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule12b-2 of the Exchange Act (check one):

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of May 7, 2007; 4,994,596 shares

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PLUMAS BANCORP
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)
(In thousands, except share data)

	March 31, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 12,457	$ 11,293
Federal funds sold		
Cash and cash equivalents	12,457	11,293
Investment securities (fair value of $66,904 at March 31, 2007 and $74,841 at December 31, 2006)	66,849	74,795
Loans, less allowance for loan losses of $4,150 at March 31, 2007 and $3,917 at December 31, 2006 (Notes 3 and 4)	357,485	351,977
Premises and equipment, net	15,153	15,190
Intangible assets, net	1,262	1,337
Bank owned life insurance	9,531	9,449
Accrued interest receivable and other assets	9,441	9,198
Total assets	$ 472,178	$ 473,239
Liabilities and Shareholders Equity		
Deposits:		
Non-interest bearing	$ 113,284	$ 121,464
Interest bearing	292,076	280,712
Total deposits	405,360	402,176
Short-term borrowings	14,800	20,000
Accrued interest payable and other liabilities	5,179	4,901
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	435,649	437,387
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 4,999,596 shares at March 31, 2007 and 5,023,205 shares at December 31, 2006	4,871	4,828
Retained earnings	32,201	31,716

Accumulated other comprehensive loss (Note 6)	(543)	(692)
Total shareholders equity	36,529	35,852
Total liabilities and shareholders equity	$ 472,178	$ 473,239

See notes to unaudited condensed consolidated financial statements.

Table of Contents

PLUMAS BANCORP
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(In thousands, except per share data)

	Unaudited For the Three Months Ended March 31,	
	2007	**2006**
Interest Income:		
Interest and fees on loans	$ 6,905	$ 6,004
Interest on investment securities:		
Taxable	519	687
Exempt from Federal income taxes	134	131
Interest on Federal funds sold	2	117
Total interest income	7,560	6,939
Interest Expense:		
Interest on deposits	1,675	1,361
Interest on short-term borrowings	186	
Interest on junior subordinated deferrable interest debentures	206	183
Other	6	4
Total interest expense	2,073	1,548
Net interest income before provision for loan losses	5,487	5,391
Provision for Loan Losses	250	300
Net interest income after provision for loan losses	5,237	5,091
Non-Interest Income:		
Service charges	855	859
Gain (loss) on sale of loans	27	(4)
Earnings on Bank owned life insurance policies	102	94
Other	287	261
Total non-interest income	1,271	1,210
Non-Interest Expenses:		
Salaries and employee benefits	2,828	2,537
Occupancy and equipment	910	750
Other	1,270	1,121
Total non-interest expenses	5,008	4,408
Income before provision for income taxes	1,500	1,893
Provision for Income Taxes	552	718
Net income	$ 948	$ 1,175

Basic earnings per share (Note 5)	$ 0.19	$ 0.24
Diluted earnings per share (Note 5)	$ 0.19	$ 0.23

See notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	For the Three Months Ended March 31, 2007	2006
Cash Flows from Operating Activities:		
Net income	$ 948	$ 1,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	250	300
Change in deferred loan origination costs/fees, net	69	(246)
Depreciation and amortization	564	482
Stock-based compensation expense	53	43
Amortization of investment security premiums	59	122
Accretion of investment security discounts	(16)	(22)
Net loss on disposal/sale of premises and equipment	27	1
Net gain on sale of other vehicles owned	(20)	
Earnings on Bank owned life insurance policies	(102)	(94)
Expenses on Bank owned life insurance policies	20	17
Increase in accrued interest receivable and other assets	(419)	(120)
Increase in accrued interest payable and other liabilities	278	33
Net cash provided by operating activities	1,711	1,691
Cash Flows from Investing Activities:		
Proceeds from matured and called available-for-sale investment securities	7,375	7,346
Proceeds from matured and called held-to-maturity investment securities	26	
Purchases of held-to-maturity investment securities		(155)
Proceeds from principal repayments from available-for-sale government-guaranteed mortgage-backed securities	755	837
Proceeds from principal repayments from held-to-maturity government-guaranteed mortgage-backed securities		19
Net increase in loans	(5,921)	(1,209)
Proceeds from sale of other real estate and vehicles	89	54
Purchase of premises and equipment	(382)	(2,001)
Net cash provided by investing activities	1,942	4,891

Continued on next page.

Table of Contents

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

	For the Three Months Ended March 31, 2007	2006
Cash Flows from Financing Activities:		
Net (decrease) increase in demand, interest bearing and savings deposits	$ (11,813)	$ 3,028
Net increase (decrease) in time deposits	14,997	(5,911)
Net decrease in short-term borrowings	(5,200)	
Net proceeds from exercise of stock options	17	61
Repurchase and retirement of common stock	(490)	
Net cash used in financing activities	(2,489)	(2,822)
Increase in cash and cash equivalents	1,164	3,760
Cash and Cash Equivalents at Beginning of Year	11,293	24,596
Cash and Cash Equivalents at End of Period	$ 12,457	$ 28,356
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$ 1,809	$ 1,468
Income taxes	$ 75	$
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$ 94	$ 60
Net change in unrealized loss on available-for-sale securities	$ 149	$ (99)
Non-Cash Financing Activities:		
Common stock retired in connection with the exercise of stock options	$ 49	$ 312

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 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 is a California state-chartered bank that was incorporated in July 1980 and opened for business in December 1980. The Bank operates twelve branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Loyalton, Portola, Quincy, Susanville, Tahoe City, Truckee and Westwood. The bank also has a commercial lending office in Reno, Nevada. 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 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, 2007 and December 31, 2006 and its results of operations and cash flows for the three-month periods ended March 31, 2007 and 2006. Certain reclassifications have been made to prior period s balances to conform to classifications used in 2007.

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 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 2006 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month periods ended March 31, 2007 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, 2007	December 31, 2006
Commercial	$ 35,148	$ 36,182
Agricultural	36,831	35,577
Real estate mortgage	122,987	116,329
Real estate construction and land development	76,305	75,930
Consumer	89,251	90,694
	360,522	354,712
Deferred loan costs, net	1,113	1,182
Allowance for loan losses	(4,150)	(3,917)
	$ 357,485	$ 351,977

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 $100,391,000 and $101,759,000 and stand-by letters of credit of $508,000 and $564,000 at March 31, 2007 and December 31, 2006, respectively.

Of the loan commitments outstanding at March 31, 2007, $27,810,000 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, 2007 or December 31, 2006.

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,	
	2007	**2006**
Earnings Per Share:		
Basic earnings per share	$ 0.19	$ 0.24
Diluted earnings per share	$ 0.19	$ 0.23
Weighted Average Number of Shares Outstanding:		
(in thousands)		
Basic shares	5,012	4,988
Diluted shares	5,071	5,091

There were 170,700 stock options during the three-month period ended March 31, 2007, considered to be antidilutive and therefore omitted from the above calculation of diluted earnings per share. There were no stock options in the three-month period ended March 31, 2006 considered to be antidilutive.

6. COMPREHENSIVE INCOME

Total comprehensive income for the three months ended March 31, 2007 and 2006 totaled $1,097,000 and $1,076,000, respectively. Comprehensive income is comprised of unrealized gains (losses), net of taxes, on available-for-sale investment securities, which were $149,000 and $(99,000) for the three months ended March 31, 2007 and 2006, respectively, together with net income.

At March 31, 2007 and December 31, 2006, accumulated other comprehensive loss totaled $543,000 and $692,000, 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 897,110 shares of common stock remain reserved for issuance to employees and directors and 459,337 shares are available for future grants under incentive and nonstatutory agreements as of March 31, 2007. The Company granted 155,700 and 2,500 options in the quarters ended March 31, 2007 and 2006 respectively. The weighted average grant date fair value of options granted for the three month periods ended March 31, 2007 and 2006 was $4.53 and $4.60 respectively. Compensation cost related to stock options recognized in operating results under SFAS No. 123R was $53,000 and $43,000 in the three months ended March 31, 2007 and 2006, respectively. The associated future income tax benefit recognized was $6,000 and $5,000 in the three months ended March 31, 2007 and 2006, respectively.

Table of Contents

The following table summarizes information about stock option activity for the three months ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value (in thousands)
Options outstanding at December 31, 2006	290,914	$11.62		
Options granted	155,700	16.37		
Options exercised	(8,841)	7.43		
Options cancelled				
Options outstanding at March 31, 2007	437,773	$13.40	6.8	$ 1,138
Options exercisable at March 31, 2007	182,309	$10.70	5.7	$ 966
Expected to vest after March 31, 2007	255,464	$15.33	7.6	$ 172

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, 2007 was $80,000. During the three months ended March 31, 2007, the amount of cash received from the exercise of stock options was $17,000.

At March 31, 2007, there was $886,000 of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 3.4 years. The total fair value of options vested during the three months ended March 31, 2007 was $6,000.

8. INCOME TAXES

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an Interpretation of FASB statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company has adopted FIN 48 as of January 1, 2007.

The Company previously recognized income tax positions based on management s estimate of whether it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The provisions of FIN 48 have been applied to all tax positions of the Company as of January 1, 2007. There was no cumulative effect of applying the provisions of FIN 48 and there was no material effect on the Company s provision for income taxes for the three months ended March 31, 2007. The Company recognizes interest accrued related to unrecognized tax benefits and accruals for penalties in income tax expense.

Table of Contents

9. RECENT ACCOUNTING DEVELOPMENTS

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities   Including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. The entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The provisions of SFAS 159 are effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Management did not elect to early adopt SFAS 159 and has not yet completed its evaluation of the impact that SFAS 159 will have.

10. SUBSEQUENT EVENTS

On April 18, 2007, the Company declared a common stock cash dividend of $0.15 per share. The dividend will be payable on May 15, 2007 to its shareholders of record on April 30, 2007.

Table of Contents

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

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

When the Company uses in this Quarterly Report the words anticipate , estimate , expect , project , intend , 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, 2007 and December 31, 2006 and for the three month periods ended March 31, 2007 and 2006. 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, 2006.

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

CASH DIVIDEND

On April 18, 2007, the Company declared a semi-annual common stock cash dividend of $0.15 per share. . This represents a 15% increase in the semi-annual cash dividend per share from 13 cents paid on May 15, 2006. The dividend will be payable on May 14, 2007 to its shareholders of record on April 30, 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no changes to the Company s critical accounting policies from those disclosed in the Company s 2006 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.

Table of Contents

OVERVIEW

The Company s net income decreased $227 thousand, or 19%, to $948 thousand for the three months ended March 31, 2007 from $1,175 thousand for the same period in 2006. An increase of $96 thousand in net interest income, a $61 thousand increase in non-interest income and decreases of $50 thousand in the provision for loan losses and $166 thousand in the provision for income taxes were offset by an increase of $600 thousand in non-interest expenses, primarily in salaries and benefits and occupancy and equipment.

Total assets at March 31, 2007 were $472 million, a slight decrease of $1 million from the $473 million at December 31, 2006. A decrease in investment securities of $7.9 million, primarily related to anticipated maturities during the first quarter of 2007, was available to fund an increase of $5.5 million in net loans. Deposits increased by $3.2 million, or less than 1%, to $405 million at March 31, 2007 from $402 million at December 31, 2006. An increase of $15 million in time deposits offset decreases in other categories of deposits. As a result of the increase in deposits and maturities of the investment securities, the Company was also able to reduce its short-term borrowings by $5.2 million from $20 million at December 31, 2006 to $14.8 million at March 31, 2007.

The annualized return on average assets was 0.82% for the three months ended March 31, 2007 down from 1.02% for the same period in 2006. The annualized return on average equity was 10.5% for the three months ended March 31, 2007 down from 14.8% for the same period in 2006.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2007

Net interest income before provision for loan losses. Net interest income, on a nontax-equivalent basis, was $5.5 million for the three months ended March 31, 2007, an increase of $96 thousand, or 2%, from $5.4 million for the same period in 2006. The increase in net interest income can be primarily attributed to increases in the Company s average loan balances and average loan yield, mostly offset by decreases in average investment securities and average federal funds sold and the change in mix of and increase in the cost of average interest bearing liabilities. Net interest margin for the three months ended March 31, 2007 increased 10 basis points, or 2%, to 5.24%, up from 5.14% for the same period in 2006.

Interest income increased $621 thousand or 9%, to $7.6 million for the three months ended March 31, 2007 primarily as a result of the volume and rate increases in loan balances. Interest and fees on loans increased $901 thousand to $6.9 million for the three months ended March 31, 2007 as compared to $6.0 million during the first quarter of 2006. The Company s average loan balances were $354 million for the three months ended March 31, 2007, up $32.5 million, or 10%, from the $321 million for the same period in 2006. The average rate earned on the Company s loan balances increased 34 basis points to 7.92% during the first three months of 2007 compared to 7.58% during the first three months of 2006. The Company experienced a decline of $165 thousand in interest on investment securities and $115 thousand in interest on federal funds sold primarily related to a decline in the average balance of these assets.

Primarily related to an increase in the cost of interest-bearing liabilities, interest expense increased $525 thousand, or 34%, to $2.1 million for the three months ended March 31, 2007, up from $1.6 million for the same period in 2006. Consistent with market conditions in the Company s service area, the Company has experienced a change in the mix of its deposit accounts from the first quarter of 2006, with growth in higher rate time and Money Fund Plu$ accounts and decreases in accounts offering lower rates such as the Company s money market and savings accounts and non-interest bearing demand deposits. Money Fund Plu$ is a high interest bearing checking account designed to pay rates comparable to those available on a typical brokerage account.

This change in mix and an increase in the average rate paid on time deposits has resulted in an increase in the average rate paid on the Company s interest bearing deposits of 52 basis points from 1.85% for the quarter ended March 31, 2006 to 2.37% for the first current quarter of 2007 and an increase in interest expense on deposits of $314 thousand. The average rate paid on time deposits increased from 3.26% during the three months ended March 31, 2006 to 4.16% during the first quarter of 2007. This increase includes an increase in market rates in the Company s service area and the effect of a promotional 5-month certificate of deposit introduced during the fourth quarter of 2006. The average rate paid on this promotional certificate of deposit during the quarter ended March 31, 2007 was 5.11% and the average balance was $22.5 million.

The remaining increase in interest expense relates to an increase in short-term borrowings and rates paid on trust preferred securities. The Company had average short-term borrowings of $14.1 million with an average cost of 5.37% during the first quarter of 2007. There were no short-term borrowings outstanding during the first quarter of 2006. The average rate paid on the Company s trust preferred securities (junior subordinated debentures) increased 90 basis points to 8.1% for the three months ended March 31, 2007 from 7.2% during the first quarter of 2006. The rate on the trust preferred securities is tied to the LIBOR rate and will increase/decrease with increases/decreases in LIBOR.
The following table presents for the three-month periods indicated the distribution of consolidated average assets, liabilities and shareholders equity. It also presents the amounts of interest income from interest-earning assets and the resultant annualized yields expressed in both dollars and annualized yield percentages, as well as the amounts of interest expense on interest-bearing liabilities and the resultant cost expressed in both dollars and annualized rate percentages. Average balances are based on daily averages. Nonaccrual loans are included in the calculation of average loans while nonaccrued interest thereon is excluded from the computation of yields earned:

	For the Three Months Ended March 31, 2007			For the Three Months Ended March 31, 2006		
	Average Balance (in thousands)	**Interest (in thousands)**	**Yield/ Rate**	**Average Balance (in thousands)**	**Interest (in thousands)**	**Yield/ Rate**
Interest-earning assets:						
Loans (1) (2)	$ 353,640	$ 6,905	7.92%	$ 321,136	$ 6,004	7.58%
Investment securities (1)	70,700	653	3.75%	93,366	818	3.55%
Federal funds sold	175	2	4.63%	10,745	117	4.42%
Total interest-earning assets	424,515	7,560	7.22%	425,247	6,939	6.62%
Cash and due from banks	12,597			14,042		
Other assets	32,616			29,721		
Total assets	$ 469,728			$ 469,010		
Interest-bearing liabilities:						
NOW deposits	$ 79,600	369	1.88%	$ 72,658	263	1.47%
Money market deposits	44,566	106	0.96%	64,731	201	1.26%
Savings deposits	53,487	77	0.58%	63,945	116	0.74%
Time deposits	109,566	1,123	4.16%	97,227	781	3.26%
Short-term borrowings	14,053	186	5.37%			%
Other interest-bearing liabilities	300	6	8.11%	273	4	5.94%
Junior subordinated debentures	10,310	206	8.10%	10,310	183	7.20%

Total interest-bearing liabilities	311,882	2,073	2.70%	309,144