

CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
November 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER: 000 31977

CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation or organization)

77-0539125

(I.R.S. Employer Identification No.)

7100 N. Financial Dr., Fresno, California

(Address of principal executive offices)

93720

(Zip code)

(559) 298-1775

Registrant's telephone number

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 past 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act).

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Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of November 9, 2007 there were 5,999,616 shares of the registrant's common stock outstanding.

CENTRAL VALLEY COMMUNITY BANCORP

2007 QUARTERLY REPORT ON FORM 10-Q

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PART 1: FINANCIAL INFORMATION**ITEM 1: FINANCIAL STATEMENTS****CENTRAL VALLEY COMMUNITY BANCORP****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(In thousands, except share amounts)	September 30, 2007		December 31, 2006	
ASSETS				
Cash and due from banks	\$	16,579	\$	23,898
Federal funds sold		11,285		24,218
Total cash and cash equivalents		27,864		48,116
Interest bearing deposits in other banks		118		323
Available-for-sale investment securities (Amortized cost of \$85,080 at September 30, 2007 and \$104,117 at December 31, 2006)		85,225		103,922
Loans, less allowance for credit losses of \$3,830 at September 30, 2007 and \$3,809 at December 31, 2006		333,907		318,853
Bank premises and equipment, net		5,940		4,655
Bank owned life insurance		6,315		6,146
Federal Home Loan Bank stock		1,996		1,891
Goodwill and intangible assets		9,844		10,005
Accrued interest receivable and other assets		6,293		6,148
Total assets	\$	477,502	\$	500,059
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Non-interest bearing	\$	132,262	\$	150,182
Interest bearing		275,814		290,445
Total deposits		408,076		440,627
Short-term borrowings		10,313		3,250
Accrued interest payable and other liabilities		6,403		6,404
Total liabilities		424,792		450,281
Commitments and contingencies				
Shareholders' equity:				
Preferred stock, no par value: 10,000,000 shares authorized, no shares issued or outstanding				
Common stock, no par value; 80,000,000 authorized; outstanding 5,999,591 at September 30, 2007 and 6,037,656 at December 31, 2006		12,683		14,007
Retained earnings		39,940		35,888

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Accumulated other comprehensive gain (loss), net of tax	87	(117)
Total shareholders' equity	52,710	49,778
Total liabilities and shareholders' equity	\$ 477,502	\$ 500,059

See notes to unaudited condensed consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands except earnings per share amounts)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2007	2006	2007	2006
INTEREST INCOME:				
Interest and fees on loans	\$ 7,155	\$ 6,565	\$ 20,733	\$ 18,880
Interest on Federal funds sold	109	277	408	712
Interest and dividends on investment securities:				
Taxable	805	817	2,575	2,375
Exempt from Federal income taxes	212	234	662	800
Total interest income	8,281	7,893	24,378	22,767
INTEREST EXPENSE:				
Interest on deposits	2,065	1,682	5,951	4,350
Other	30	107	143	303
Total interest expense	2,095	1,789	6,094	4,653
Net interest income before provision for credit losses	6,186	6,104	18,284	18,114
PROVISION FOR CREDIT LOSSES				
Net interest income after provision for credit losses	6,066	6,004	17,924	17,514
NON-INTEREST INCOME:				
Service charges	707	665	2,064	1,870
Loan placement fees	33	88	161	284
Net realized gains on sales of investment securities		14	44	123
Appreciation in cash surrender value of bank owned life insurance	57	65	168	186
Federal Home Loan Bank stock dividends	25	23	76	63
Gain on sale and disposal of premises and equipment		188	4	188
Other income	253	252	833	784
Total non-interest income	1,075	1,295	3,350	3,498
NON-INTEREST EXPENSES:				
Salaries and employee benefits	2,731	2,689	8,103	7,890
Occupancy and equipment	675	609	1,982	1,746
Other expense	1,458	1,333	4,240	3,838
Total non-interest expenses	4,864	4,631	14,325	13,474
Income before provision for income taxes	2,277	2,668	6,949	7,538
PROVISION FOR INCOME TAXES				
Net income	\$ 1,576	\$ 1,669	\$ 4,647	\$ 4,768
Basic earnings per share	\$ 0.26	\$ 0.28	\$ 0.78	\$ 0.80

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Diluted earnings per share	\$	0.25	\$	0.26	\$	0.73	\$	0.74
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See notes to unaudited condensed consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
AND THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007

(Unaudited)

(In thousands except share and per share amounts)	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, January 1, 2006	5,891,820	\$ 13,053	\$ 28,977	\$ (507)	41,523	
Comprehensive income:						
Net income			6,911		6,911	\$ 6,911
Other comprehensive loss, net of tax:						
Net change in unrealized loss on available-for-sale investment securities				390	390	390
Total comprehensive income						\$ 7,301
Stock options exercised and related tax benefit	172,036	1,186			1,186	
Repurchase and retirement of common stock	(26,200)	(395)			(395)	
Stock-based compensation expense		163			163	
Balance, December 31, 2006	6,037,656	14,007	35,888	(117)	49,778	
Comprehensive income:						
Net income			4,647		4,647	\$ 4,647
Other comprehensive income, net of tax:						
Net change in unrealized gain on available-for-sale investment securities				204	204	204
Total comprehensive income						\$ 4,851
Cash dividend - \$.10 per share			(595)		(595)	
Stock options exercised and related tax benefit	124,435	934			934	
Repurchase and retirement of common stock	(162,500)	(2,402)			(2,402)	
Stock-based compensation expense		144			144	
Balance, September 30, 2007	5,999,591	\$ 12,683	\$ 39,940	\$ 87	52,710	

See notes to unaudited condensed consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(Unaudited)

(In thousands)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,647	\$ 4,768
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (decrease) increase in deferred loan fees	(133)	187
Depreciation, accretion and amortization, net	811	1,310
Stock-based compensation	144	124
Tax benefit from exercise of stock options	(369)	(390)
Provision for loan losses	360	600
Net realized gains on sales and calls of available-for-sale investment securities	(44)	(123)
Net gain on sale and disposal of equipment	(4)	(188)
Increase in bank owned life insurance, net of expenses	(169)	(182)
FHLB stock dividends	(76)	(63)
Net increase in accrued interest receivable and other assets	(257)	(80)
Net increase in accrued interest payable and other liabilities	368	1,458
Provision for deferred income taxes	(25)	(15)
Net cash provided by operating activities	5,253	7,406
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash and cash equivalents acquired in acquisition		21
Purchases of available-for-sale investment securities	(4,044)	(17,588)
Proceeds from sales or calls of available-for-sale investment securities	5,699	16,559
Proceeds from principal repayments of available-for-sale investment securities	11,327	11,717
Proceeds from maturity of available-for-sale investment securities	6,150	1,000
Proceeds from sale of premises and equipment	4	455
Net decrease in interest bearing deposits in other banks	205	595
Net FHLB stock purchases	(29)	(143)
Net increase in loans	(15,281)	(9,651)
Purchases of premises and equipment	(1,985)	(1,788)
Purchases of bank owned life insurance		(505)
Net cash provided by investing activities	2,046	672
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in demand, interest bearing and savings deposits	(37,755)	(30,621)
Net increase in time deposits	5,204	12,377
Proceeds from borrowings from Federal Home Loan Bank	67,500	9,788
Repayments to Federal Home Loan Bank	(59,500)	(11,788)
Repayments of borrowings from other financial institutions	(937)	(937)
Cash paid for dividends	(595)	
Share repurchase and retirement	(2,402)	
Proceeds from exercise of stock options	565	616
Tax benefit from exercise of stock options	369	390
Net cash used in financing activities	(27,551)	(20,175)
Decrease in cash and cash equivalents	(20,252)	(12,097)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,116	51,995

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	27,864	\$	39,898
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for:			
Interest expense	\$	6,060	\$ 4,498
Income taxes	\$	2,540	\$ 2,060
Non-Cash Investing Activities:			
Net change in unrealized gain on available-for-sale investment securities	\$	340	\$ 767
Non-Cash Financing Activities:			
Tax Benefit from stock options exercised	\$	369	\$ 390
Supplemental schedules related to acquisition:			
Acquisition of Bank of Madera County:			
Intangibles	\$	\$	21
Cash acquired, net of cash paid to Bank of Madera County shareholders			
	\$	\$	21

See notes to unaudited condensed consolidated financial statements.

CENTRAL VALLEY COMMUNITY BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The interim unaudited condensed consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim condensed consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2006 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the Company's financial position and shareholders' equity at September 30, 2007 and December 31, 2006, and the results of its operations for the three and nine month interim periods ended September 30, 2007 and September 30, 2006 and its cash flows for the nine month interim period ended September 30, 2007 and September 30, 2006 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2007 presentation. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Management has determined that since all of the 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 customer accounts for more than 10 percent of revenues for the Company or the Bank.

Note 2. Stock-Based Compensation

The Company has three stock-based compensation plans which are described as follows:

During 1992, the Bank established a Stock Option Plan for which shares are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The Company assumed all obligations under this plan as of November 15, 2000, and options to purchase shares of the Company's common stock were substituted for options to purchase shares of common stock of the Bank. Outstanding options under this plan are exercisable until their expiration, however, no new options will be granted under this plan.

On November 15, 2000, the Company adopted, and subsequently amended on December 20, 2000, the Central Valley Community Bancorp 2000 Stock Option Plan for which 847,019 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 1,826 remain reserved for future grants. 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 option price must be paid in full at the time it is exercised. The options under the plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is determined by the Board of Directors and is generally over five years.

In May 2005, the Company adopted the Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company, including restricted stock. The maximum number of shares that can be issued with respect to all awards under the plan is 476,000. The plan requires that the exercise price may not be less than 100% of the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options and awards under the plan expire on dates determined by the Board of Directors, but not later than 10 years from the date of grant. The vesting period for the options and option related stock appreciation rights is determined by the Board of Directors and is generally over five years. No options have been issued to date under the 2005 Plan.

Stock Option Compensation

From the 2000 Plan 78,900 options were granted in 2007, at an exercise price of \$14.69, and 15,000 were granted in 2006, at an exercise price of \$15.00. For the nine month periods ended September 30, 2007 and 2006, the compensation cost recognized for stock option compensation was \$144,000 and \$124,000, respectively. For the quarter ended September 30, 2007 and 2006, compensation cost recognized was \$48,000 and \$39,000, respectively. The recognized tax benefit for stock option compensation expense was \$370,000 and \$390,000, for the nine month periods ended September 30, 2007 and 2006, respectively. For the three month periods ended September 30, 2007 and 2006, recognized tax benefits were \$205,000 and \$113,000, respectively. As of September 30, 2007, there was \$758,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 1992 Plan and 2000 Plan. The cost is expected to be recognized over a weighted average period of 4 years.

The Company bases the fair value of the options granted on the date of grant using a Black-Scholes option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The simplified method described in SEC Staff Accounting Bulletin No. 107 was used to determine the expected term of the Company's options in 2007 and 2006. Stock volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant. The compensation cost for options granted is based on the weighted average grant date fair value per share and for the 78,900 options granted for the nine months ended September 30, 2007 was \$5.75.

Subsequent to the end of the third quarter, the Board of Directors of the Company approved the cancellation of 15,000 stock options granted on May 1, 2006 and 78,900 stock options granted on April 23, 2007. The Board granted new options to the directors, senior managers and other employees in the same numbers and to the same employees who were holders of the cancelled options. The grant date of the new options was October 17, 2007 and the options were granted with an exercise price equal to the fair market value on the grant date of \$12.00 per share. The Board considered the general decline in stocks of financial institutions as a whole in reaching their decision. The cancellation of previously issued options reflects the Board's desire to ensure that options continue to provide proper incentive to key personnel.

Stock Option Activity

A summary of the combined activity of the plans follows:

	Nine Months ended September 30, 2007	
Weighted Average	Weighted Average Remaining	Average Intrinsic

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	Shares	Exercise Price	Contractual Term	Value (In thousands)
Options outstanding, beginning of period	899,834	\$ 6.45		\$ 7,563
Options granted	78,900	14.69		
Options exercised	(124,435)	\$ 4.55		
Options canceled	(7,280)	\$ 13.13		
Options outstanding, end of period	847,019	\$ 7.45	4.93	\$ 4,453
Options vested or expected to vest at September 30, 2007	810,111	\$ 7.25	6.97	\$ 4,393
Options exercisable, end of period	662,509	\$ 5.65	3.94	\$ 4,419

The total intrinsic value of options exercised in the nine months ended September 30, 2007 and 2006, was \$900,000 and \$1,564,000, respectively.

Note 3. Earnings per share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, stock appreciation rights settled in stock or restricted stock awards, result in the issuance of common stock which shares in the earnings of the Company. There was no difference in the net income used in the calculation of basic earnings per share and diluted earnings per share.

A reconciliation of the numerators and denominators of the basic and diluted EPS computations is as follows:

Basic Earnings Per Share	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
In thousands (except share and per share amounts)	2007	2006	2007	2006
Net income	\$ 1,576	\$ 1,669	\$ 4,647	\$ 4,768
Weighted average shares outstanding	5,967,762	6,008,712	5,994,131	5,959,873
Net income per share	\$ 0.26	\$ 0.28	\$ 0.78	\$ 0.80

Diluted Earnings Per Share	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
In thousands (except share and per share amounts)	2007	2006	2007	2006
Net income	\$ 1,576	\$ 1,669	\$ 4,647	\$ 4,768
Weighted average shares outstanding	5,967,762	6,008,712	5,994,131	5,959,873
Effect of dilutive stock options	353,318	491,883	393,099	511,297
Weighted average shares of common stock and common stock equivalents	6,321,080	6,500,595	6,387,230	6,471,170
Net income per diluted share	\$ 0.25	\$ 0.26	\$ 0.73	\$ 0.74

Note 4. Comprehensive Income

Total comprehensive income is comprised of net earnings and net unrealized gains and losses on available-for-sale securities, which is the Company's only source of other comprehensive income. Total comprehensive income for the three-month periods ended September 30, 2007 and 2006 was \$2,176,000 and \$2,993,000 and was \$4,851,000 and \$5,228,000 for the nine month periods ended September 30, 2007 and 2006, respectively.

Note 5. Commitments and Contingencies

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In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans.

Commitments to extend credit amounting to \$140,893,000 and \$133,937,000 were outstanding at September 30, 2007 and December 31, 2006, respectively. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

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Undisbursed lines of credit amounting to \$79,296,000 and \$71,040,000 were outstanding at September 30, 2007 and December 31, 2006, respectively. Undisbursed lines of credit are revolving lines of credit whereby customers can repay principal and advance principal during the term of the loan at their discretion and most expire between one and twelve months.

The Company has undisbursed portions of construction loans totaling \$17,511,000 and \$24,850,000 as of September 30, 2007 and December 31, 2006, respectively. These commitments are agreements to lend to a customer, subject to meeting certain construction progress requirements. The underlying construction loans have fixed expiration dates.

Standby letters of credit and financial guarantees amounting to \$1,018,000 and \$612,000 were outstanding at September 30, 2007 and December 31, 2006, respectively. Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees carry a one year term or less. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at September 30, 2007 and December 31, 2006. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

The Company generally requires collateral or other security to support financial instruments with credit risk. Management does not anticipate any material loss will result from the outstanding commitments to extend credit, standby letters of credit and financial guarantees.

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or consolidated results of operations of the Company.

Note 6. Income Taxes

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has adopted FIN 48 as of January 1, 2007. 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 significant effect on the Company's provision for income taxes for the nine months ended September 30, 2007.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense in the consolidated statements of income. There have been no significant changes to unrecognized tax benefits or accrued interest and penalties for the nine months or the quarter ended September 30, 2007.

Note 7. Recent Accounting Developments

Fair Value Option for Financial Assets and Financial Liabilities

Note 5. Commitments and Contingencies

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, with early adoption permissible, subject to certain criteria. Management did not elect to early adopt SFAS 159 and does not expect SFAS 159 to have a material impact on the Company's financial position or results of operations.

Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 06-10 (EITF 06-10), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*. EITF 06-10 requires employers to recognize a liability for the post-retirement benefit related to collateral assignment split-dollar life insurance arrangements in accordance with SFAS No. 106 or APB Opinion No. 12. EITF 06-10 also requires employers to recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The provisions of EITF 06-10

are effective for the Company on January 1, 2008, with earlier application permitted, and are to be applied as a change in accounting principle either through a cumulative-effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption; or as a change in accounting principle through retrospective application to all prior periods. The Company does not expect adoption of EITF 06-10 to have a material impact on its financial position or results of operations.

Note 8. Stock Repurchase

On October 18, 2006, the Board of Directors of the Company approved the adoption of a program to effect repurchases of the Company's common stock. The program allowed for repurchase of up to approximately \$1,000,000 of the Company's outstanding shares of common stock under the program for a period beginning on October 23, 2006 and ending June 30, 2007.

On April 18, 2007, the Board of Directors approved an additional stock repurchase of up to approximately \$2,000,000 of the Company's outstanding shares of common stock for a period beginning on April 18, 2007 and ending October 18, 2007.

As of September 30, 2007, under both plans, the Company had repurchased a total of 188,700 shares in open market transactions through brokers, at an average price of \$14.84 for a total cost of \$2,800,000.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not historical facts, such as statements regarding the Company's current business strategy and the Company's plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Such risks and uncertainties include, but are not limited to (1) significant increases in competitive pressure in the banking industry; (2) the impact of changes in interest rates, a decline in economic conditions at the international, national or local level on the Company's results of operations, the Company's ability to continue its internal growth at historical rates, the Company's ability to maintain its net interest margin, and the quality of the Company's earning assets; (3) changes in the regulatory environment; (4) fluctuations in the real estate market; (5) changes in business conditions and inflation; (6) changes in securities markets; and (7) risks associated with acquisitions, relating to difficulty in integrating combined operations and related negative impact on earnings, and incurrence of substantial expenses. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.

When the Company uses in this Quarterly Report on Form 10-Q the words anticipate, estimate, expect, project, intend, commit, 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 on Form 10-Q. 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 shareholder 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

On January 1, 2007, the Company adopted Financial Accounting Standards Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. 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 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a 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. See Note 6 to the unaudited condensed consolidated financial statements for further information related to implementation of FIN 48.

There have been no other changes to the Company's critical accounting policies from those discussed 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.

OVERVIEW

Third Quarter 2007

In the third quarter of 2007, our consolidated net income was \$1,576,000 compared to net income of \$1,669,000 for the same period in 2006. Diluted EPS was \$0.25 for the third quarter 2007 compared to \$0.26 for the third quarter 2006. The decrease in net income was primarily the result of increasing rates paid on interest bearing deposits outpacing the increase in yields earned on earning assets resulting in a decrease in net interest margin of 2 basis points for the third quarter of 2007 compared to the same period in 2006. While average total loans increased by 9.8% offset by the increase in average total interest bearing deposits of 2.0%. In addition, non-interest income decreased 17.0% primarily due to the sale of Company-owned real estate during the third quarter of 2006 which resulted in a pre-tax gain of \$188,000. Non-interest expense increased 5.0% in the third quarter of 2007 compared to 2006 mainly due to increases in salaries and other operating expenses.

Annualized return on average equity for the third quarter of 2006 was 12.21% compared to 14.28% for the same period in 2006. Total average equity was \$51,626,000 for the third quarter 2007 compared to \$46,772,000 for the third quarter 2006. Equity increased primarily as a result of the net income included in retained earnings and proceeds from exercise of stock options offset by the repurchase of shares of the Company's common stock and the payment of cash dividends.

First Nine Months of 2007

For the nine months ended September 30, 2007, the Company's consolidated net income was \$4,647,000 compared to \$4,768,000 for same period in 2006. Diluted EPS was \$0.73 for the nine months ended September 30, 2007 compared to \$0.74 for the same period in 2006.

Annualized return on average equity for the nine months ended September 30, 2007 was 12.15% compared to 14.30% for the same period in 2006. Annualized return on average assets for the nine months ended September 30, 2007 was 1.30% compared to 1.37% for the same period in 2006. Total average equity was \$51,006,000 for the nine months ended September 30, 2007 compared to \$44,475,000 for the same period in 2006. Equity increased primarily as a result of the net income and proceeds from exercise of stock options offset by the repurchase of shares of the Company's common stock and the payment of cash dividends.

In comparing the first three quarters of 2007 to the same period in 2006, total loans continued to increase. Average total loans increased \$27,584,000 or 9.1% in the first nine months of 2007 compared to the nine months ended September 30, 2006 while average interest bearing liabilities decreased \$1,872,000 or 0.7% comparing the same periods. While yields increased on earning assets, the rates paid on interest bearing liabilities increased at a faster rate. As a result, net interest margin declined slightly by 8 basis points from the nine months ended September 30, 2006 compared to the nine months ended September 30, 2007. Asset quality continues to be strong. The Bank had one non-accrual loan totaling \$11,000 at September 30, 2007, compared to none at December 31, 2006 or September 30, 2006, and had no other real estate owned at September 30, 2007, December 31, 2006, or September 30, 2006.

Central Valley Community Bancorp (Company)

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We are a central California-based bank holding company for a one-bank subsidiary, Central Valley Community Bank (Bank). We provide traditional commercial banking services to small and medium-sized businesses and individuals in the communities along the Highway 99 corridor in the Fresno and Madera Counties of central California. Additionally, we have a private banking office in Sacramento County and a loan production office in Stanislaus County. As a bank holding company, the Company is subject to supervision, examination and regulation by the Federal Reserve Bank.

At September 30, 2007, we had total loans of \$337,737,000, total assets of \$477,502,000, total deposits of \$408,076,000, and shareholders equity of \$52,710,000.

Central Valley Community Bank (Bank)

The Bank commenced operations in January 1980 as a state-chartered bank. As a state-chartered bank, the Bank is subject to primary supervision, examination and regulation by the Department of Financial Institutions. The Bank's deposits are insured by the Federal Deposit Insurance Corporation up to the applicable limits thereof, and the Bank is subject to supervision, examination and regulations of the FDIC.

The Bank operates 12 branches which serve the communities of Fresno, Clovis, Kerman, Prather, Oakhurst, Madera, and Sacramento; and a loan production office which serves the Modesto community. Additionally the Bank operates Real Estate, Agribusiness and SBA departments that originate loans in California. According to the June 30, 2007 FDIC data, the Bank's seven branches in Fresno County (Clovis, Fresno, Kerman, and Prather) had a 4.1% combined deposit market share of all depositories including credit unions, thrifts, and savings banks.

The Bank anticipates additional branch openings in the future to meet the growing service needs of its customers. The branch expansions provide the Company with opportunities to expand its loan and deposit base. During 2006 we opened three new branch offices and in 2007 opened a new loan production office. Management expects that new offices will initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses.

Key Factors in Evaluating Financial Condition and Operating Performance

As a publicly traded community bank holding company, we focus on several key factors including:

Return to our stockholders;

Return on average assets;

Development of core revenue streams, including net interest income and non-interest income;

Asset quality;

Asset growth; and

Operating efficiency.

Return to Our Stockholders

Our return to our stockholders is measured in the form of return on average equity (ROE). Our annualized ROE was 12.15% for the nine months ended September 30, 2007 compared to 15.17% for the year ended December 31, 2006 and 14.30% for the nine months ended September 30, 2006. Our net income for the nine months ended September 30, 2007 decreased \$121,000 or 2.5% to \$4,647,000 compared to \$4,768,000 for the nine months ended September 30, 2006. Net income decreased due to a decrease in non-interest income and an increase in non-interest expenses, offset by increases in net interest income, and a decrease in the provision for credit losses. Net interest margin decreased 8 basis points comparing the nine month periods ended September 30, 2007 and 2006. Diluted EPS was \$0.73 for the nine months ended September 30, 2007 compared to \$0.74 for the same period in 2006.

Return on Average Assets

Our return on average assets (ROA) is a measure we use to compare our performance with other banks and bank holding companies. Our annualized ROA for the nine months ended September 30, 2007 was 1.30% compared to 1.47% for the year ended December 31, 2006 and 1.37% for the nine months ended September 30, 2006. The decrease in ROA compared to December 2006 is due to the decrease in net income relative to our increase in average assets. Average assets for the nine months ended September 30, 2007 were \$476,852,000 compared to \$470,221,000 for the year ended December 31, 2006. ROA for our peer group was 1.19% at June 30, 2007. Peer group data from SNL Financial includes bank holding companies in central California with assets from \$400 million to \$1 billion.

Development of Core Earnings

Over the past several years, we have focused on not only improving net income, but improving the consistency of our revenue streams in order to create more predictable future earnings and reduce the effect of changes in our operating environment on our net income.