CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

o 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	**77-0539125**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 Pollasky Avenue, Clovis, California	**93612**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number **(559) 298-1775**

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 x 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 Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

Yes o No x

As of November 8, 2006 there were 6,014,656 shares of the registrant s common stock outstanding

CENTRAL VALLEY COMMUNITY BANCORP

2006 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 SHEET
(Unaudited)

(In thousands, except share amounts)	September 30, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 17,725	$ 22,165
Federal funds sold	22,173	29,830
Total cash and cash equivalents	39,898	51,995
Interest bearing deposits in other banks	323	918
Available-for-sale investment securities (Amortized cost of $94,458 at September 30, 2006 and $106,437 at December 31, 2005)	94,380	105,592
Loans, less allowance for credit losses of $3,607 at September 30, 2006 and $3,339 at December 31, 2005	307,328	298,463
Bank premises and equipment, net	3,700	2,912
Bank owned life insurance	7,412	6,725
Federal Home Loan Bank stock	1,865	1,659
Goodwill and intangible assets	10,059	10,241
Accrued interest receivable and other assets	4,959	5,172
Total assets	$ 469,924	$ 483,677
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 127,753	$ 153,004
Interest bearing	284,992	277,985
Total deposits	412,745	430,989
Short-term borrowings	3,250	3,250
Long-term debt	313	3,250
Accrued interest payable and other liabilities	5,735	4,665
Total liabilities	422,043	442,154
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 shares authorized; outstanding 6,033,798 at September 30, 2006 and 5,891,820 at December 31, 2005	14,183	13,053
Retained earnings	33,745	28,977
Accumulated other comprehensive loss, net of tax	(47)	(507)
Total shareholders equity	47,881	41,523
Total liabilities and shareholders equity	$ 469,924	$ 483,677

See notes to unaudited condensed consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(In thousands except earnings per share amounts)	**For the Three Months Ended September 30 2006**	**2005**	**For the Nine Months Ended September 30 2006**	**2005**
INTEREST INCOME:				
Interest and fees on loans	$ 6,565	$ 5,521	$ 18,880	$ 15,180
Interest on Federal funds sold	277	136	712	418
Interest and dividends on investment securities:				
Taxable	817	750	2,375	2,391
Exempt from Federal income taxes	234	297	800	884
Total interest income	7,893	6,704	22,767	18,873
INTEREST EXPENSE:				
Interest on deposits	1,682	1,047	4,350	2,701
Other	107	65	303	186
Total interest expense	1,789	1,112	4,653	2,887
Net interest income before provision for credit losses	6,104	5,592	18,114	15,986
PROVISION FOR CREDIT LOSSES	100	10	600	10
Net interest income after provision for credit losses	6,004	5,582	17,514	15,976
NON-INTEREST INCOME:				
Service charges	665	606	1,870	1,806
Loan placement fees	88	91	284	283
Net realized gains on sales of investment securities	14	10	123	82
Appreciation in cash surrender value of bank owned life insurance	65	54	186	157
Federal Home Loan Bank stock dividends	23	17	63	49
Net realized gain on sale and disposal of assets	188		188	
Other income	252	250	784	630
Total non-interest income	1,295	1,028	3,498	3,007
NON-INTEREST EXPENSES:				
Salaries and employee benefits	2,689	2,353	7,890	7,098
Occupancy and equipment	609	534	1,746	1,593
Other expense	1,333	1,134	3,838	3,471
Total non-interest expenses	4,631	4,021	13,474	12,162
Income before provision for income taxes	2,668	2,589	7,538	6,821
PROVISION FOR INCOME TAXES	999	940	2,770	2,445
Net income	$ 1,669	$ 1,649	$ 4,768	$ 4,376
Basic earnings per share	$ 0.28	$ 0.28	$ 0.80	$ 0.75
Diluted earnings per share	$ 0.26	$ 0.26	$ 0.74	$ 0.69

See notes to unaudited condensed consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005
AND THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2006
(Unaudited)

(In thousands except share and per share amounts)	Common Shares Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders Equity	Total Comprehensive Income
Balance, January 1, 2005	5,257,734	$ 6,343	$ 22,933	$ 330	$ 29,606	
Comprehensive income						
Net income			6,044		6,044	$ 6,044
Other comprehensive loss, net of tax:						
Net change in unrealized gains on available-for-sale investment securities				(837)	(837)	(837)
Total comprehensive income						$ 5,207
Stock issued for acquisition	522,106	6,079			6,079	
Stock options exercised and related tax benefit	111,980	631			631	
Balance, December 31, 2005	5,891,820	13,053	28,977	(507)	41,523	
Comprehensive income						
Net income			4,768		4,768	$ 4,768
Other comprehensive gain, net of tax:						
Net change in unrealized losses on available-for-sale investment securities				460	460	460
Total comprehensive income						$ 5,228
Stock options exercised and related tax benefit	141,978	1,006			1,006	
Stock-based compensation expense		124			124	
Balance, September 30, 2006	6,033,798	$ 14,183	$ 33,745	$ (47)	$ 47,881	

See notes to unaudited condensed consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited)

(In thousands)	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,768	$ 4,376
Adjustments to reconcile net income to net cash provided by operating activities:		
Net increase in deferred loan fees	187	90
Depreciation, amortization and accretion, net	1,310	1,808
Stock-based compensation	124	
Tax benefit from exercise of stock options	(390)	(161)
Provision for loan losses	600	10
Net realized gains on sales of available-for-sale investment securities	(123)	(82)
Net realized gains on sales of premises and equipment	(188)	
Increase in bank owned life insurance, net of expenses	(182)	(153)
FHLB stock dividends	(63)	(49)
Net (increase) decrease in accrued interest receivable and other assets	(80)	1,585
Net increase in accrued interest payable and other liabilities	1,443	301
Net cash provided by operating activities	7,406	7,725
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash and cash equivalents acquired in acquisitions	21	13,844
Purchases of available for sale investment securities	(17,588)	(41,989)
Proceeds from sales or calls of available-for-sale investment securities	16,559	14,977
Proceeds from principal repayments of available-for-sale investment securities	11,717	17,292
Proceeds from maturity of available-for-sale investment securities	1,000	
Proceeds from sale of premises	455	
Net increase in FHLB stock	(143)	
Net decrease in interest bearing deposits in other banks	595	656
Net increase in loans	(9,651)	(36,087)
Purchases of premises and equipment	(1,788)	(527)
Purchases of bank owned life insurance	(505)	(440)
Net cash provided by (used in) investing activities	672	(32,274)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in demand, interest bearing and savings deposits	(30,621)	11,023
Net increase in time deposits	12,377	9,728
Proceeds from borrowings from Federal Home Loan Bank	9,788	
Repayments to Federal Home Loan Bank	(11,788)	(2,000)
Repayments to borrowings from other financial institutions	(937)	
Proceeds from exercise of stock options	616	378
Tax benefit from exercise of stock options	390	161
Net cash (used in) provided by financing activities	(20,175)	19,290
Decrease in cash and cash equivalents	(12,097)	(5,259)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	51,995	43,814
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 39,898	$ 38,555
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest expense	$ 4,498	$ 2,754
Income taxes	$ 2,060	$ 2,423
Non-Cash Investing Activities:		
Net change in unrealized gain on available-for-sale investment securities	$ 767	$ (933)
Non-Cash Financing Activities:		
Tax Benefit from stock options exercised	$ 390	$ 161

Supplemental schedules related to acquisition:

Acquisition of Bank of Madera County:		
Deposits		$ 63,769
Other liabilities		439
Loans, net		(45,028)
Intangibles	$ 21	(10,455)
Premises and equipment		(390)
Federal Home Loan Bank stock		(172)
Other assets		(398)
Stock Issued		6,079
Cash acquired, net of cash paid to Bank of Madera County shareholders	$ 21	$ 13,844

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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 2005 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, 2006 and December 31, 2005, and the results of its operations for the three and nine month interim periods ended September 30, 2006 and September 30, 2005 and its cash flows for the nine month interim period ended September 30, 2006 and September 30, 2005 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2006 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.

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 in Note 3. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment* (SFAS 123(R)), using the modified prospective application transition method, which requires recognizing expense for options granted prior to the adoption date equal to the fair value of the unvested amounts over their remaining vesting period, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 *Accounting for Stock Based Compensation,* and compensation cost for all share based payments granted subsequent to January 1, 2006, based on the grant date fair values estimated in accordance with the provisions of SFAS 123(R). There were 15,000 options granted in the first nine months of 2006 and no grants were made in the same period of 2005. Results for prior periods have not been restated. Prior to January 1, 2006, The Company accounted for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations (APB 25). No stock-based compensation cost is reflected in net income prior to January 1, 2006, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

As a result of adopting SFAS 123(R), the Company s income before provision for income taxes and net income for the nine months ended September 30, 2006 was $124,000 and $108,000, respectively, lower than if we had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the nine month period ended September 30, 2006 would have been $0.82 and $0.75, respectively, without the adoption of SFAS 123(R) compared to $0.80 and $0.74, respectively, as reported. Income before provision for income taxes and net income for the quarter ended September 30, 2006 was lower by $39,000 and $34,000, respectively than if we had continued under APB 25. There was no impact to basic and diluted EPS for the quarter ended September 30, 2006.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as a cash flow from financing in the statement of cash flows. Excess tax benefits for the quarter ended September 30, 2006 were $113,000 and were $390,000 for the nine months ended September 30, 2006.

In February 2005 the Company accelerated the vesting of 186,000 options previously granted to certain directors and executive officers as reflected in the table below. No stock based compensation is reflected in net income for the nine months ended September 30 2005, as a result of the acceleration of the vesting as it is expected that generally all of the directors and executive management whose options were accelerated will remain with the Company through the original vesting period.

The following table illustrates the pro forma effect on net income and earnings per share if the fair value recognition provisions of SFAS 123 had been applied to the Company s stock option plans for the quarter and nine months ended September 30, 2005.

(In thousands, except per share amounts)	**For the Quarter Ended September 30, 2005**		**For the Nine Months Ended September 30, 2005**	
Net earnings as reported	$	1,649	$	4,376
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	54		446	
Pro forma net income	$	1,595	$	3,930
Basic earnings per share - as reported	$	0.28	$	0.75
Basic earnings per share - pro forma	$	0.27	$	0.67
Diluted earnings per share - as reported	$	0.26	$	0.69
Diluted earnings per share - pro forma	$	0.25	$	0.62

Note 3. Stock Option Plans

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 932,052 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 71,286 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 March 2005, the Company adopted the Central Valley Community Bancorp 2005 Omnibus Incentive 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. There are no grants under this plan.

A summary of the combined activity of the plans follows:

	Nine Months ended September 30, 2006			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value (In thousands)
Options outstanding, beginning of period	1,085,290	$ 5.97		
Options granted	15,000	$ 15.50		
Options exercised	(141,978)	$ 4.34		
Options canceled	(26,260)	$ 5.68		
Options outstanding, end of period	932,052	$ 6.39	5.22	$ 8,448
Options vested or expected to vest at September 30, 2006	898,511	$ 6.30	6.54	$ 8,220
Options exercisable, end of period	754,792	$ 5.08	6.23	$ 7,828

There were no options granted in the quarter ended September 30, 2006 and 156,300 options were granted in the same quarter of 2005. The total intrinsic value of options exercised during the quarter ended September 30, 2006 was $636,000. The total intrinsic value of options exercised in the nine month period ended September 30, 2006 was $1,564,000.

The Company bases the fair value of the options previously 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 Company uses historical data to estimate expected option life. 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.

As of September 30, 2006, there was $431,000 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 four years. Total fair value of options vested was $104,000 and $197,000 for the quarter and nine month periods ended September 30, 2006.

Note 4. 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 **In thousands (except share and per share amounts)**	**Three Months Ended September 30,** **2006**	**2005**	**Nine Months Ended September 30,** **2006**	**2005**
Net income	$ 1,669	$ 1,649	$ 4,768	$ 4,376
Weighted average shares outstanding	6,008,712	5,873,027	5,959,873	5,830,044
Net income per share	$ 0.28	$ 0.28	$ 0.80	$ 0.75

Diluted Earnings Per Share **In thousands (except share and per share amounts)**	**Three Months Ended September 30,** **2006**	**2005**	**Nine Months Ended September 30,** **2006**	**2005**
Net income	$ 1,669	$ 1,649	$ 4,768	$ 4,376
Weighted average shares outstanding	6,008,712	5,873,027	5,959,873	5,830,044
Effect of dilutive stock options	491,883	553,547	511,297	567,257
Weighted average shares of common stock and common stock equivalents	6,500,595	6,426,574	6,471,170	6,397,301
Net income per diluted share	$ 0.26	$ 0.26	$ 0.74	$ 0.69

Note 5. 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, 2006 and 2005 was $2,993,000 and $1,152,000 and was $5,228,000 and $3,823,000 for the nine month periods ended September 30, 2006 and 2005, respectively.

Note 6. Commitments and Contingencies

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 $145,672,000 and $133,956,000 were outstanding at September 30, 2006 and December 31, 2005, 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.

Undisbursed lines of credit amounting to $62,764,000 and $64,374,000 were outstanding at September 30, 2006 and December 31, 2005, 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 $30,099,000 and $20,636,000 as of September 30, 2006 and December 31, 2005, 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 $612,000 and $80,000 were outstanding at September 30, 2006 and December 31, 2005, 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, 2006 and December 31, 2005. 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 7. Recent Accounting Developments

Accounting for Uncertainty in 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*. 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. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Management does not expect the adoption of this standard to have a material impact on the Company s financial position or results of operations.

Fair Value Measurements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The provisions should be applied prospectively, except for certain specifically identified financial instruments. Management does not expect the adoption of this standard to have a material impact on the Company s financial position or results of operations.

Accounting for Deferred Compensation and Post Retirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements

In September 2006, the FASB ratified the consensuses reached by the Emerging Issues Task Force (EITF) on Issue No. 06-4 (EITF 06-4) *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. A question arose when an employer enters into an endorsement split-dollar life insurance arrangement related to whether the employer should recognize a liability for the future benefits or premiums to be provided to the employee. EITF 06-4 indicates that an employer should recognize a liability for future benefits and that a liability for the benefit obligation has not been settled through the purchase of an endorsement type policy. An entity should apply the provisions of EITF 06-4 either through a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-4 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-4 will have.

Accounting for Purchases of Life Insurance

In September 2006, the FASB ratified the consensuses reached by the EITF on Issue No. 06-5 (EITF 06-5) *Accounting for the Purchases of Life Insurance Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin No.85-4* (FTB 85-4). FTB 85-4 indicates that the amount of the asset included in the balance sheet for life insurance contracts within its scope should be the amount that could be realized under the insurance contract as of the date of the statement of financial position. Questions arose in applying the guidance in FTB 85-4 to whether the amount that could be realized should consider 1) any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value and 2) the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time. EITF 06-5 determined that the amount that could be realized should 1) consider any additional amounts included in the contractual terms of the policy and 2) assume the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy. Any amount that is ultimately realized by the policy holder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the amount that could be realized. An entity should apply the provisions of EITF 06-5 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or a change in accounting principle through retrospective application to all prior periods. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006. Management has not yet completed its evaluation of the impact that EITF 06-5 will have.

Consideration of the Effects of Prior Year Misstatements

In September, 2006, the Securities and Exchange Commission published Staff Accounting Bulleting No. 108 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The interpretations in this Staff Accounting Bulletin was issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This guidance will apply to the first fiscal year ending after November 15, 2006 and early application in interim periods is encouraged. Management does not believe the adoption of SAB 108 will have a material impact on the Company s financial position or results of operations.

Note 8. Subsequent Events

On October 18, 2006, the Board of Directors of Central Valley Community Bancorp (the Company) approved the adoption of a program to effect repurchases of the Company s common stock. The Company may repurchase 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. The shares will be repurchased in open market transactions through brokers, subject to availability.

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, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (R), *Share Based Payment* (SFAS 123(R)) using the modified prospective transition method. Prior to adoption of this statement, the Company accounted for its share-based employee compensation plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting *for Stock-Based Compensation.* See Notes 2 and 3 to the Condensed Consolidated Financial Statements for additional information related to implementation of SFAS 123(R) and for further information on the Company s stock-based compensation plans. In March 2005 the Company adopted the Central Valley Community Bancorp Omnibus Incentive Plan. Under this plan, the Company can award stock appreciation rights and restricted stock in addition to the incentive and non-statutory stock options.

There have been no other changes to the Company s critical accounting policies from those discussed in the Company s 2005 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 2006

In the third quarter of 2006, our net income was $1,669,000 compared to net income of $1,649,000 for the same period in 2005. Diluted EPS was $0.26 for both periods. This increase in net income was the result of an increase in average total loans of 8.03% and an increase in net interest margin of 25 basis points for the third quarter of 2006 compared to the same period in 2005.

Annualized return on average equity for the third quarter of 2006 was 14.28% compared to 16.67% for the same period of 2005. Total average equity was $46,772,000 at September 30, 2006 compared to $39,567,000 at September 30, 2005. Equity increased primarily as a result of the net income included in retained earnings and proceeds from exercise of stock options.

First Nine Months of 2006

For the first nine months of 2006, our operating results exceeded those of the same period in 2005 by 8.96%. Net income was $4,768,000 for the first nine months of 2006 compared to net income of $4,376,000 for the same period in 2005. Results for the first nine months of 2006 included a $600,000 ($360,000 after tax) provision for credit losses, compared to a $10,000 provision for credit losses in the first nine months of 2005. Diluted EPS for the first nine months of 2006 was $0.74 compared to $0.69 for the first nine months of 2005.

Annualized return on average equity for the first nine months of 2006 was 14.30% compared to 15.40% for the same period of 2005. Total average equity was $44,475,000 September 30, 2006 compared to $37,895,000 at September 30, 2005. Equity increased primarily as a result of the net income included in retained earnings.

In comparing the first nine months of 2006 to the same period in 2005, total loans continued to grow at a double digit pace. For the nine months ended September 30, 2006, we made a pre-tax addition of $600,000 to the allowance for credit losses to restore the allowance to the level of estimated reserves for probable losses in the portfolio. Refer to Provision for Credit Loss and Allowance for Credit Losses for further discussion.Average total loans increased by $30,764,000 or 11.34% in the first nine months of 2006 compared to the same period in 2005. Asset quality continues to be strong. The Bank had no non-accrual loans at September 30, 2006 compared to two loans at December 31, 2005 totaling $616,000 and one loan totaling $591,000 at September 30, 2005. We had no other real estate owned at September 30, 2006, December 31, 2005 or September 30, 2005. In 2006, we recorded a charge-off relating to of a $527,000 commercial relationship in the Sacramento area.

Central Valley Community Bancorp (Company)

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

At September 30, 2006, we had total loans of $310,935,000, total assets of $469,924,000, total deposits of $412,745,000 and shareholders equity of $47,881,000.

Central Valley Community Bank (the 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.

In February 2006, we opened our newest branch in downtown Fresno bringing the total number of full service branches to 10 which serve the communities of Fresno, Clovis, Kerman, Prather, Oakhurst, Madera, and Sacramento. Additionally the Bank operates Real Estate, Agribusiness and SBA departments that originate loans in California. According to the June 30, 2006 FDIC data, the Bank s seven branches in Fresno County (Clovis, Fresno, Kerman, and Prather) had a 4.8% combined deposit market share of all banks and 3.9% of all depositories including thrifts, and savings banks.

The Bank anticipates additional branch openings to meet the growing service needs of its customers. We have been approved by FDIC and the California Department of Financial Institutions (DFI) for a new branch site in the Sunnyside area of Fresno and anticipate the branch opening in the fourth quarter of 2006. The branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these 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.

Return to our stockholders is measured in the form of return on average equity (ROE). Our net income for the nine months ended September 30, 2006 increased by $392,000 or 8.96% to $4,768,000 compared to $4,376,000 for the nine months ended September 30, 2005. Net income increased mainly due to an increase in net interest income attributed to an increase in average earning assets, the continued positive effect of the increase in interest rates and management of deposit interest expense. Non-interest income increased but was offset by an increase in non-interest expenses. Basic EPS increased to $0.80 for the nine months ended September 30, 2006 compared to $0.75 for the nine months ended September 30, 2005. Diluted EPS increased to $0.74 for the nine months ended September 30, 2006 compared to $0.69 for the nine months ended September 30, 2005. The increase in EPS was due primarily to the increase in net income, partially offset by an increase in average shares outstanding as a result of the exercise of stock options. Our annualized ROE was 14.30% for the nine months ended September 30, 2006 compared to 15.63% for the year ended December 31, 2005 and 15.40% for the nine months ended September 30, 2005. The decrease in ROE is reflective of an increase in capital primarily from net income included in retained earnings.

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, 2006 was 1.37% compared to 1.33% for the year ended December 31, 2005 and 1.30% for the nine months ended September 30, 2005. Average assets for the nine months ended September 30, 2006 were $465,518,000 compared $455,680,000 for the year ended December 31, 2005. ROA for our peer group was 1.14% at June 30, 2006. Peer group information in this report is from SNL Financial data and includes all holding companies in California with assets from $300M to $500M and not subchapter S.

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. Specifically, we have focused on net interest income through a variety of processes, including increases in average interest earning assets as a result of loan generation and retention and improved net interest margin by focusing on core deposits and managing the cost of funds. As a result, our net interest income before provision for credit losses increased $2,128,000 or 13.31% to $18,114,000 for the nine months ended September 30, 2006 compared to $15,986,000 for the nine months ended September 30, 2005. Another measurement of those efforts is our net interest margin which improved 41 basis points to 5.80% for the nine months ended September 30, 2006 compared to 5.39% for the nine months ended September 30, 2005.

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements, gains on sales from investment securities, and other income. Non-interest income for the first nine months of 2006 increased $491,000 or 16.33% to $3,498,000 compared to $3,007,000 for the first nine months of 2005. The increase in non-interest income for the first nine months can be mainly attributed to an increase in net realized gains from the sale of investments securities, net realized gains from the sale and disposal of assets, an increase in service charge income, and an increase in other non-interest income. Further detail of non-interest income is provided below.

Asset Quality

For all banks and bank holding companies, asset quality has a significant impact on the overall financial condition and results of operations. Asset quality is measured in terms of percentage of total loans and total assets, and is a key element in estimating the future earnings of a company. The Company had no non-performing loans as of September 30, 2006 compared to two non-performing loans totaling $616,000 as of December 31, 2005 and one non-performing loan of $591,000 at September 30, 2005. The decrease in non-performing loans at September 30, 2006 is primarily due to the pay off of one non-performing loan after the sale of the property prior to completion of foreclosure in the second quarter of 2006. Management maintains certain loans that have been brought current by the borrower (less than 30 days delinquent) on non-accrual status until such time as management has determined that the loans are likely to remain current in future periods. Non-performing loans as a percentage of total loans were 0.00% at September 30, 2006 and 0.20% at both December 31, 2005 and September 30, 2005. The Company did not have any other real estate owned at September 30, 2006, December 31, 2005or September 30, 2005.

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Asset Growth

As revenues from both net interest income and non-interest income are a function of asset size, the continued growth in assets has a direct impact in increasing net income and therefore affecting ROE and ROA. The majority of our assets are loans and investment securities, and the majority of our liabilities are deposits, and therefore the ability to generate deposits as a funding source for loans and investments is fundamental to our asset growth. Total assets decreased 2.84% during the first nine months of 2006 from $483,677,000 as of December 31, 2005 to $469,924,000 as of September 30, 2006. Total investment securities including Federal funds sold decreased 13.93% to $116,553,000 at September 30, 2006 compared to $135,422,000 as of December 31, 2005. Total gross loans increased 1.03% to $310,935,000 as of September 30, 2006 compared to $301,802,000 as of December 31, 2005. Tot