

CENTRAL VALLEY COMMUNITY BANCORP  
Form 10-Q  
May 11, 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 MARCH 31, 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.)

**600 Pollasky Avenue, Clovis, California**

(Address of principal executive offices)

**93612**

(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 ☒ 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).

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).

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Yes ☐ No ☒

As of May 11, 2007 there were 5,972,546 shares of the registrant's common stock outstanding

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**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)**

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(In thousands, except share amounts)

|                                                                                                                                      | March 31, 2007 | December 31, 2006 |
|--------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
| <b>ASSETS</b>                                                                                                                        |                |                   |
| Cash and due from banks                                                                                                              | \$ 17,225      | \$ 23,898         |
| Federal funds sold                                                                                                                   | 6,675          | 24,218            |
| Total cash and cash equivalents                                                                                                      | 23,900         | 48,116            |
| Interest bearing deposits in other banks                                                                                             | 238            | 323               |
| Available-for-sale investment securities (Amortized cost of \$94,891 at March 31, 2007 and \$104,117 at December 31, 2006)           | 94,964         | 103,922           |
| Loans, less allowance for credit losses of \$3,681 at March 31, 2007 and \$3,809 at December 31, 2006                                | 323,594        | 318,853           |
| Bank premises and equipment, net                                                                                                     | 5,573          | 4,655             |
| Bank owned life insurance                                                                                                            | 6,201          | 6,146             |
| Federal Home Loan Bank stock                                                                                                         | 1,918          | 1,891             |
| Goodwill and intangible assets                                                                                                       | 9,952          | 10,005            |
| Accrued interest receivable and other assets                                                                                         | 5,871          | 6,148             |
| Total assets                                                                                                                         | \$ 472,211     | \$ 500,059        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                          |                |                   |
| Deposits:                                                                                                                            |                |                   |
| Non-interest bearing                                                                                                                 | \$ 135,536     | \$ 150,182        |
| Interest bearing                                                                                                                     | 278,214        | 290,445           |
| Total deposits                                                                                                                       | 413,750        | 440,627           |
| Short-term borrowings                                                                                                                | 938            | 3,250             |
| Long-term debt                                                                                                                       |                |                   |
| Accrued interest payable and other liabilities                                                                                       | 6,572          | 6,404             |
| Total liabilities                                                                                                                    | 421,260        | 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 shares authorized; outstanding 6,018,246 at March 31, 2007 and 6,037,656 at December 31, 2006 | 13,567         | 14,007            |
| Retained earnings                                                                                                                    | 37,340         | 35,888            |
| Accumulated other comprehensive gain(loss), net of tax                                                                               | 44             | (117)             |
| Total shareholders' equity                                                                                                           | 50,951         | 49,778            |
| Total liabilities and shareholders' equity                                                                                           | \$ 472,211     | \$ 500,059        |

See notes to unaudited condensed consolidated financial statements.

**CENTRAL VALLEY COMMUNITY BANCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

| (In thousands except per share amounts)                           | For the Three Months<br>Ended March 31<br>2007 | 2006     |
|-------------------------------------------------------------------|------------------------------------------------|----------|
| <b>INTEREST INCOME:</b>                                           |                                                |          |
| Interest and fees on loans                                        | \$ 6,573                                       | \$ 5,995 |
| Interest on Federal funds sold                                    | 144                                            | 270      |
| Interest and dividends on investment securities:                  |                                                |          |
| Taxable                                                           | 897                                            | 720      |
| Exempt from Federal income taxes                                  | 241                                            | 306      |
| Total interest income                                             | 7,855                                          | 7,291    |
| <b>INTEREST EXPENSE:</b>                                          |                                                |          |
| Interest on deposits                                              | 1,823                                          | 1,262    |
| Other                                                             | 64                                             | 64       |
| Total interest expense                                            | 1,887                                          | 1,326    |
| Net interest income before provision for credit losses            | 5,968                                          | 5,965    |
| <b>PROVISION FOR CREDIT LOSSES</b>                                | 120                                            | 400      |
| Net interest income after provision for credit losses             | 5,848                                          | 5,565    |
| <b>NON-INTEREST INCOME:</b>                                       |                                                |          |
| Service charges                                                   | 692                                            | 555      |
| Net realized gains on sales of investment securities              | 44                                             | 125      |
| Appreciation in cash surrender value of bank owned life insurance | 55                                             | 57       |
| Loan placement fees                                               | 65                                             | 51       |
| Federal Home Loan Bank stock dividends                            | 28                                             | 19       |
| Gain on sale and disposal of equipment                            | 4                                              |          |
| Other income                                                      | 271                                            | 250      |
| Total non-interest income                                         | 1,159                                          | 1,057    |
| <b>NON-INTEREST EXPENSES:</b>                                     |                                                |          |
| Salaries and employee benefits                                    | 2,708                                          | 2,577    |
| Occupancy and equipment                                           | 650                                            | 555      |
| Other expenses                                                    | 1,347                                          | 1,265    |
| Total non-interest expenses                                       | 4,705                                          | 4,397    |
| Income before provision for income taxes                          | 2,302                                          | 2,225    |
| <b>PROVISION FOR INCOME TAXES</b>                                 | 850                                            | 795      |
| Net income                                                        | \$ 1,452                                       | \$ 1,430 |
| Basic earnings per share                                          | \$ 0.24                                        | \$ 0.24  |
| Diluted earnings per share                                        | \$ 0.23                                        | \$ 0.22  |

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 THREE MONTH PERIOD ENDED MARCH 31, 2007**  
**(Unaudited)**

| (In thousands except share and per share amounts)                              | Commn Stock<br>Shares | Amount    | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>(Net of Taxes) | Total<br>Shareholders'<br>Equity | Total<br>Comprehensive<br>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<br>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                                                                     |                       |           | 1,452                |                                                                          | 1,452                            | \$ 1,452                         |
| Other comprehensive gain, net of tax:                                          |                       |           |                      |                                                                          |                                  |                                  |
| Net change in unrealized losses on<br>available-for-sale investment securities |                       |           |                      | 161                                                                      | 161                              | 161                              |
| Total comprehensive income                                                     |                       |           |                      |                                                                          |                                  | \$ 1,613                         |
| Stock options exercised and related tax benefit                                | 19,990                | 125       |                      |                                                                          | 125                              |                                  |
| Repurchase and retirement of common stock                                      | (39,400)              | (602)     |                      |                                                                          | (602)                            |                                  |
| Stock-based compensation expense                                               |                       | 37        |                      |                                                                          | 37                               |                                  |
| Balance, March 31, 2007                                                        | 6,018,246             | \$ 13,567 | \$ 37,340            | \$ 44                                                                    | \$ 50,951                        |                                  |

See notes to unaudited condensed consolidated financial statements.

**CENTRAL VALLEY COMMUNITY BANCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2007 and 2006**  
**(Unaudited)**

| (In thousands)                                                                    | 2007      | 2006      |
|-----------------------------------------------------------------------------------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |           |           |
| Net income                                                                        | \$ 1,452  | \$ 1,430  |
| Adjustments to reconcile net income to net cash provided by operating activities: |           |           |
| Net (decrease) increase in deferred loan fees                                     | (8        | ) 28      |
| Depreciation, accretion and amortization, net                                     | 286       | 494       |
| Stock-based compensation                                                          | 37        | 69        |
| Tax benefit from exercise of stock options                                        | (35       | ) (35     |
| Provision for loan losses                                                         | 120       | 400       |
| Net realized gains on sales and calls of available-for-sale investment securities | (44       | ) (125    |
| Net gain on sale and disposal of equipment                                        | (4        | )         |
| Increase in bank owned life insurance, net of expenses                            | (55       | ) (56     |
| FHLB stock dividends                                                              | (28       | ) (19     |
| Net decrease in accrued interest receivable and other assets                      | 175       | 183       |
| Net increase in accrued interest payable and other liabilities                    | 203       | 2,218     |
| Provision for deferred income taxes                                               | (5        | ) (10     |
| Net cash provided by operating activities                                         | 2,094     | 4,577     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |           |           |
| Cash and cash equivalents acquired in acquisition                                 |           | 21        |
| Purchases of available-for-sale investment securities                             | (2,572    | ) (15,208 |
| Proceeds from sales or calls of available-for-sale investment securities          | 5,699     | 9,834     |
| Proceeds from principal repayments of available-for-sale investment securities    | 3,983     | 4,480     |
| Proceeds from maturity of available-for-sale investment securities                | 2,150     |           |
| Net decrease in interest bearing deposits in other banks                          | 85        |           |
| Net (increase) decrease in loans                                                  | (4,853    | ) 7,612   |
| Purchases of premises and equipment                                               | (1,140    | ) (401    |
| Proceeds from sale of equipment                                                   | 4         |           |
| Net cash provided by investing activities                                         | 3,356     | 6,338     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |           |           |
| Net decrease in demand, interest bearing and savings deposits                     | (31,926   | ) (16,762 |
| Net increase in time deposits                                                     | 5,049     | 5,874     |
| Proceeds from borrowings from Federal Home Loan Bank                              | 32,500    |           |
| Repayments to Federal Home Loan Bank                                              | (34,500   | ) (2,000  |
| Repayments of borrowings from other financial institutions                        | (312      | ) (312    |
| Share repurchase and retirement                                                   | (602      | )         |
| Proceeds from exercise of stock options                                           | 90        | 130       |
| Tax benefit from exercise of stock options                                        | 35        | 35        |
| Net cash used in financing activities                                             | (29,666   | ) (13,035 |
| Decrease in cash and cash equivalents                                             | (24,216   | ) (2,120  |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                                    | 48,116    | 51,995    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                                        | \$ 23,900 | \$ 49,875 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                          |           |           |
| Cash paid during the year for:                                                    |           |           |
| Interest expense                                                                  | \$ 1,806  | \$ 1,310  |
| Income taxes                                                                      | \$ 1,180  |           |
| <b>Non-Cash Investing Activities:</b>                                             |           |           |
| Net change in unrealized gain on available-for-sale investment securities         | \$ 268    | \$ (289   |
| <b>Non-Cash Financing Activities:</b>                                             |           |           |
| Tax Benefit from stock options exercised                                          | \$ 35     | \$ 35     |
| <b>Supplemental schedules related to acquisition:</b>                             |           |           |
| Acquisition of Bank of Madera County:                                             |           |           |
| Intangibles                                                                       | \$        | \$ 21     |
| Cash acquired, net of cash paid to Bank of Madera County shareholders             | \$        | \$ 21     |



**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 March 31, 2007 and December 31, 2006, and the results of its operations and cash flows for the three month interim periods ended March 31, 2007 and March 31, 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.

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 874,004 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 79,286 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.

**Stock Option Compensation**

No options were granted in the quarters ended March 31, 2007 or 2006. For the three month periods ended March 31, 2007 and 2006, the compensation cost recognized for stock option compensation was \$37,000 and \$69,000, respectively. The recognized tax benefit for stock option compensation expense was \$35,000, for the three month periods ended March 31, 2007 and 2006. As of March 31, 2007, there was \$364,000 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 3.3 years.

**Stock Option Activity**

A summary of the combined activity of the plans follows:

|                                                      | Quarter ended March 31, 2007 |                                          |                                                      |                                                 |
|------------------------------------------------------|------------------------------|------------------------------------------|------------------------------------------------------|-------------------------------------------------|
|                                                      | Shares                       | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average Remaining<br>Contractual<br>Term | Average<br>Intrinsic<br>Value<br>(In thousands) |
| Options outstanding, beginning of period             | 899,834                      | \$ 6.45                                  |                                                      | \$ 7,563                                        |
| Options granted                                      |                              |                                          |                                                      |                                                 |
| Options exercised                                    | (19,990 )                    | \$ 4.51                                  |                                                      |                                                 |
| Options canceled                                     | (5,840 )                     | \$ 13.00                                 |                                                      |                                                 |
| Options outstanding, end of period                   | 874,004                      | \$ 6.46                                  | 4.76                                                 | \$ 7,417                                        |
| Options vested or expected to vest at March 31, 2007 | 862,514                      | \$ 6.25                                  | 6.08                                                 | \$ 7,261                                        |
| Options exercisable, end of period                   | 710,304                      | \$ 5.14                                  | 4.76                                                 | \$ 6,961                                        |

The total intrinsic value of options exercised in the quarters ended March 31, 2007 and 2006, was \$206,000 and \$345,000, 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:

| (In thousands except share and per share amounts) | Three Months Ended<br>March 31,<br>2007 | 2006      |
|---------------------------------------------------|-----------------------------------------|-----------|
| <b>Basic Earnings Per Share:</b>                  |                                         |           |
| Net income                                        | \$ 1,452                                | \$ 1,430  |
| Weighted average shares outstanding               | 6,016,983                               | 5,912,967 |
| Net income per share                              | \$ 0.24                                 | \$ 0.24   |

| (In thousands except share and per share amounts)                    | Three Months Ended |           |
|----------------------------------------------------------------------|--------------------|-----------|
|                                                                      | March 31,<br>2007  | 2006      |
| <b>Diluted Earnings Per Share:</b>                                   |                    |           |
| Net income                                                           | \$ 1,452           | \$ 1,430  |
| Weighted average shares outstanding                                  | 6,016,983          | 5,912,967 |
| Effect of dilutive stock options                                     | 402,647            | 530,104   |
| Weighted average shares of common stock and common stock equivalents | 6,419,630          | 6,443,071 |
| Net income per diluted share                                         | \$ 0.23            | \$ 0.22   |

#### 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 March 31, 2007 and 2006 was \$1,613,000 and \$1,257,000.

#### Note 5. 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 \$145,607,000 and \$133,937,000 were outstanding at March 31, 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.

Undisbursed lines of credit amounting to \$71,347,000 and \$71,040,000 were outstanding at March 31, 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 \$20,818,000 and \$24,850,000 as of March 31, 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 \$1,111,000 and \$612,000 were outstanding at March 31, 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 March 31, 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*

#### Note 5. Commitments and Contingencies

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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

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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 three months ended March 31, 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 during the quarter ended March 31, 2007.

## **Note 7. 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, with early adoption permissible, subject to certain criteria. Management did not elect to early adopt SFAS 159 and has not yet completed its evaluation of the impact that SFAS 159 will have.

### *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 significant impact on its consolidated financial statements, results of operations or liquidity.

## **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. As of March 31, 2007, the Company had repurchased 65,600 shares in open market transactions through brokers, at an average price of \$15.15 for a total cost of \$993,680.

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.

## **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

### First Three Months of 2007

For the three months ended March 31, 2007, the Company's consolidated net income was \$1,452,000 compared to \$1,430,000 for the first three months of 2006. Results for the first three months of 2007 included a \$120,000 pre-tax addition to the allowance for credit losses compared to \$400,000 for the same period in 2006. Diluted EPS for the first three months of 2007 was \$0.23 compared to \$0.22 for the first three months of 2006.

Annualized return on average equity for the first three months of 2006 was 11.55% compared to 13.40% for the same period of 2006. Annualized return on average assets for the first three months of 2006 was 1.23% consistent with the 1.22% for the same period of 2006. Total equity was \$50,951,000 at March 31, 2007 compared to \$43,014,000 at March 31, 2006. Equity increased primarily as a result of the net income and exercise of options offset by the repurchase of the shares of the Company's stock.

In comparing first quarter 2007 to first quarter 2006, total loans continued to increase. Average total loans increased \$21,558,000 or 7.3% in the first three months of 2007 compared to the first three months of 2006. Asset quality continues to be strong. The Bank had no non-accrual loans at March 31, 2007, compared to one loan at March 31, 2006 totaling \$591,000, and had no other real estate owned at March 31, 2007 or 2006.

### Central Valley Community Bancorp (Company)

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. As a bank holding company, the Company is subject to supervision, examination and regulation by the Federal Reserve Bank.

At March 31, 2007, we had total loans of \$327,275,000, total assets of \$472,211,000, total deposits of \$413,750,000 and shareholders' equity of \$50,951,000.



**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. 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 3.9% 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 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**

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Our return to our stockholders is measured in the form of return on average equity (ROE). Our net income for the three months ended March 31, 2007 increased \$22,000 or 1.5% to \$1,452,000 compared to \$1,430,000 for the three months ended March 31, 2006. Net income increased slightly due to relatively consistent net interest income, a decrease in the provision for credit losses, an increase in non-interest income, offset by an increase in non-interest expenses. Basic EPS was \$0.24 for both of the three months ended March 31, 2007 and 2006. Diluted EPS increased to \$0.23 for the three months ended March 31, 2007 compared to \$0.22 for the three months ended March 31, 2006. Our annualized ROE was 11.55% for the three months ended March 31, 2007 compared to 15.17% for the year ended December 31, 2006 and 13.40% for the three months ended March 31, 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 three months ended March 31, 2007 was 1.23% compared to 1.47% for the year ended December 31, 2006 and 1.22% for the three months ended March 31, 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 quarter ended March 31, 2007 were \$473,733,000 compared to \$470,221,000 for the year ended December 31, 2006. ROA for our peer group was 1.23% at December 31, 2006. Peer group from SNL Financial data includes holding companies in central California with assets from \$300 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. 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 minimizing the effects of the recent inverted interest rate yield curve on our net interest margin by focusing on core deposits and managing the cost of funds. The Company's net interest margin (fully tax equivalent basis) was 5.66% for the first quarter of 2007, compared to 5.74% for the same period in 2006. The decrease in net interest margin is principally due to an increase in the Company's cost of funds which was not fully offset by the increase in yields on earning assets. In comparing the two periods, the effective yield on total earning assets increased 43 basis points while the cost of total interest bearing liabilities increased 85 basis points and the cost of total deposits increased 55 basis points. The Company has less exposure than many lenders to such interest expense increases, as 33.1% of its average deposits are non-interest bearing. Net interest income for the first quarter of 2007 of \$5,968,000 was consistent with the \$5,965,000 for the same period in 2006.

Our non-interest income is generally made up of service charges and fees on deposit accounts, fee income from loan placements and gains from sales of investment securities. Non-interest income for the first three months of 2007 increased \$102,000 or 9.6% to \$1,159,000 compared to \$1,057,000 for the first three months of 2006 mainly due to increases in service charge income, partially offset by decreases in gains from sales of investment securities. 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 March 31, 2007 or December 31, 2006 compared to one non-performing loan for \$591,000 as of March 31, 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. The Company did not have any other real estate owned at March 31, 2007, December 31, 2006, or March 31, 2006.

#### 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 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.

The influence of our agricultural portfolio, particularly for raisins and nuts, is reflected in the differences in loan and deposit volumes from December 31, 2006 to March 31, 2007. Generally, agricultural processors sell the crops harvested in the fourth quarter of each year and hold the funds to be disbursed to the farmers until the first quarter of the following year creating a temporary increase in deposits. In the first quarter of each year, the farmers then pay down their agricultural loans with their crop proceeds. This trend is reflected in our first quarter total assets, loan and deposit numbers. Total assets decreased 5.6% during the first three months of 2007 from \$500,059,000 as of December 31, 2006 to \$472,211,000 as of March 31, 2007. Total gross loans increased 1.4% to \$327,275,000 as of March 31, 2007 compared to \$322,662,000 as of December 31, 2006, however agricultural loans decreased 44.2% to \$9,547,000 as of March 31, 2007 from \$17,102,000 as of December 31, 2006. Total deposits decreased 6.1% to \$413,750,000 as of March 31, 2007 compared to \$440,627,000 as of December 31, 2006. We expect the agricultural borrowings will begin to increase as the farmers begin their new crop year. We continue to under perform in our loan to deposit ratio compared to our peers. Our loan to deposit ratio at March 31, 2007 was 79.1% compared to 73.2% at December 31, 2006. The loan to deposit ratio of our peers was 88.5% at December 31, 2006. Further discussion of loans and deposits is below.

#### Operating Efficiency

Operating efficiency is the measure of how efficiently earnings before taxes are generated as a percentage of revenue. The Company's efficiency ratio (operating expenses, excluding amortization of intangibles, divided by net interest income plus non-interest income, excluding gains from sales of securities) was 65.7% for the first three months of 2007 compared to 62.6% for the first three months of 2006. The deterioration in the efficiency ratio is due to the increase in operating expenses exceeding the increase in revenues, primarily due to the opening of three new branches during 2006. The Company's net interest income before provision for credit losses plus non-interest income increased 3.9% to \$7,083,000 for the three months ended March 31, 2007 compared to \$6,897,000 for the same period in 2006, while operating expenses increased 9.0% to \$4,651,000 from \$4,343,000 for the same period in 2006.

### **RESULTS OF OPERATIONS**

#### **Net Income for the First Three Months of 2007 Compared to the First Three Months of 2006:**

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Net income increased to \$1,452,000 for the three months ended March 31, 2007 compared to \$1,430,000 for the three months ended March 31, 2006. Basic earnings per share were \$0.24 and \$0.24 for the three months ended March 31, 2007 and 2006, respectively. Diluted earnings per share were \$0.23 and \$0.22 for the three months ended March 31, 2007 and 2006, respectively. ROE was 11.55% for the three months ended March 31, 2007 compared to 13.40% for the three months ended March 31, 2006. ROA for the three months ended March 31, 2007 was 1.23% compared to 1.22% for the three months ended March 31, 2006.

The increase in net income and profitability for the three months ended March 31, 2007 compared to the same period in the prior year was mainly due to the increase in net interest income and non-interest income and was partially offset by increases in non-interest expenses. Net interest income after provision for credit losses increased due to a decrease in the provision for credit losses, an increase in average interest earning assets provided by our organic growth, and our ability to attract non-interest bearing deposits. The four increases in the

Federal funds interest rate from January 1, 2006 to March 31, 2007 also contributed to the increase in net interest income. Non-interest expenses increased primarily due to salaries and benefits and occupancy and equipment expenses. Further discussion of salary and occupancy expenses is below.

### **Interest Income and Expense**

Net interest income is the most significant component of our income from operations. Net interest income (the interest rate spread) is the difference between the gross interest and fees earned on the loan and investment portfolio and the interest paid on deposits and other borrowings. Net interest income depends on the volume of and interest rate earned on interest earning assets and the volume of and interest rate paid on interest bearing liabilities.

The following table sets forth a summary of average balances with corresponding interest income and interest expense as well as average yield and cost information for the periods presented. Average balances are derived from daily balances, and non-accrual loans are not included as interest earning assets for purposes of this table.

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## CENTRAL VALLEY COMMUNITY BANCORP

## SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(Dollars in thousands)

| (Unaudited)                                                                        | FOR THE THREE MONTHS ENDED<br>MARCH 31, 2007 |                 |                | FOR THE THREE MONTHS ENDED<br>MARCH 31, 2006 |                 |                |
|------------------------------------------------------------------------------------|----------------------------------------------|-----------------|----------------|----------------------------------------------|-----------------|----------------|
|                                                                                    | Average<br>Balance                           | Interest        | Yield/<br>Rate | Average<br>Balance                           | Interest        | Yield/<br>Rate |
| <b>ASSETS</b>                                                                      |                                              |                 |                |                                              |                 |                |
| Interest-earning deposits in other banks                                           | \$ 261                                       | \$ 2            | 3.07 %         | \$ 918                                       | \$ 8            | 3.49 %         |
| Securities                                                                         |                                              |                 |                |                                              |                 |                |
| Taxable securities                                                                 | 75,577                                       | 895             | 4.74 %         | 75,598                                       | 712             | 3.77 %         |
| Non-taxable securities (1)                                                         | 26,084                                       | 365             | 5.60 %         | 30,145                                       | 471             | 6.25 %         |
| Total investment securities                                                        | 101,661                                      | 1,260           | 4.96 %         | 105,743                                      | 1,183           | 4.47 %         |
| Federal funds sold                                                                 | 11,111                                       | 144             | 5.18 %         | 24,701                                       | 270             | 4.37 %         |
| Total                                                                              | 113,033                                      | 1,406           | 4.98 %         | 131,362                                      | 1,461           | 4.45 %         |
| Loans (2) (3)                                                                      | 317,444                                      | 6,573           | 8.28 %         | 295,361                                      | 5,995           | 8.12 %         |
| Federal Home Loan Bank stock                                                       | 1,904                                        | 28              | 5.88 %         | 1,663                                        | 19              | 4.57 %         |
| <b>Total interest-earning assets</b>                                               | <b>432,381</b>                               | <b>\$ 8,007</b> | <b>7.41 %</b>  | <b>428,386</b>                               | <b>\$ 7,475</b> | <b>6.98 %</b>  |
| Allowance for credit losses                                                        | (3,783)                                      | )               |                | (3,373)                                      | )               |                |
| Non-accrual loans                                                                  | 78                                           |                 |                | 603                                          |                 |                |
| Cash and due from banks                                                            | 18,074                                       |                 |                | 18,760                                       |                 |                |
| Bank premises and equipment                                                        | 5,183                                        |                 |                | 3,076                                        |                 |                |
| Other non-earning assets                                                           | 21,800                                       |                 |                | 21,237                                       |                 |                |
| <b>Total average assets</b>                                                        | <b>\$ 473,733</b>                            |                 |                | <b>\$ 468,689</b>                            |                 |                |
| <b>LIABILITIES AND SHAREHOLDERS</b>                                                |                                              |                 |                |                                              |                 |                |
| <b>EQUITY</b>                                                                      |                                              |                 |                |                                              |                 |                |
| Interest-bearing liabilities:                                                      |                                              |                 |                |                                              |                 |                |
| Savings and NOW accounts                                                           | \$ 76,594                                    | 114             | 0.60 %         | \$ 84,541                                    | 36              | 0.17 %         |
| Money market accounts                                                              | 96,717                                       | 626             | 2.59 %         | 108,583                                      | 512             | 1.89 %         |
| Time certificates of deposit, under \$100,000                                      | 47,164                                       | 452             | 3.83 %         | 43,512                                       | 303             | 2.79 %         |
| Time certificates of deposit, \$100,000 and ove                                    | 56,485                                       | 631             | 4.47 %         | 48,128                                       | 411             | 3.42 %         |
| Total interest-bearing deposits                                                    | 276,960                                      | 1,823           | 2.63 %         | 284,764                                      | 1,262           | 1.77 %         |
| Other borrowed funds                                                               | 4,550                                        | 64              | 5.63 %         | 5,456                                        | 64              | 4.69 %         |
| <b>Total interest-bearing liabilities</b>                                          | <b>281,510</b>                               | <b>1,887</b>    | <b>2.68 %</b>  | <b>290,220</b>                               | <b>1,326</b>    | <b>1.83 %</b>  |
| Non-interest bearing demand deposits                                               | 136,879                                      |                 |                | 132,791                                      |                 |                |
| Other liabilities                                                                  | 5,033                                        |                 |                | 2,992                                        |                 |                |
| Shareholders' equity                                                               | 50,311                                       |                 |                | 42,686                                       |                 |                |
| Total average liabilities and shareholders' equity                                 | \$ 473,733                                   | 1,887           |                | \$ 468,689                                   | 1,326           |                |
| Interest income and rate earned on average earning assets                          |                                              | 8,007           | 7.41 %         |                                              | 7,475           | 6.98 %         |
| Interest expense and interest cost related to average interest-bearing liabilities |                                              | 1,887           | 2.68 %         |                                              | 1,326           | 1.83 %         |
| <b>Net interest income and net interest margin (4)</b>                             |                                              | <b>\$ 6,120</b> | <b>5.66 %</b>  |                                              | <b>\$ 6,149</b> | <b>5.74 %</b>  |

(1) Calculated on a fully tax equivalent basis, which includes Federal tax benefits relating to income earned on municipal bonds totaling \$124 and \$165 in 2007 and 2006, respectively.

(2) Loan interest income includes loan fees of \$173 in 2007 and \$262 in 2006.

(3) Average loans do not include non-accrual loans.

(4) Net interest margin is computed by dividing annualized net interest income by total average interest-earning assets.

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Interest and fee income from loans increased 9.6% in the first three months of 2007 compared to the same period of 2006. The Company's continued focus on building relationships has resulted in an increase in loan volume which, coupled with the four interest rate increases since January 1, 2006, were the major components of the \$578,000 increase. Average total loans for the first three months of 2007 increased 7.3% to \$317,522,000 compared to \$295,964,000 for the same period in 2006. Competition for loans is strong in the Central Valley of California. We have seen an increase in the number of regional and community banks opening branches and loan centers. This competition is often reflected in aggressive loan pricing. We are committed to providing our customers with the best price; however we are also committed to increasing our value to shareholders. We believe we were able to meet the challenge and reported an increase in the yield on loans of 16 basis points for the first three months of 2007 to 8.28% compared to 8.12% for the same period of 2006.

Interest income from total investments, (total investments include investment securities, Federal funds sold, interest bearing deposits with other banks, and other securities) decreased \$14,000 in the first three months of 2007 compared to the same period of 2006, mainly due to the 14.0% decrease in average balances of total investments partially offset by the four interest rate increases that have occurred since January 1, 2006. Income from investments represents 21.5% of net interest income for the quarter ended March 31, 2007.

In the first quarter of 2007, we sold certain municipal securities in order to provide liquidity for our loan growth. The result of the approximate \$5,655,000 liquidation was a net realized gain on sale of investments of \$44,000.

In an effort to increase yields, without accepting unreasonable risk, a significant portion of the investment purchases have been in high quality mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). At March 31, 2007, we held \$40,926,000 or 43.1% of the total market value of the investment portfolio in MBS and CMOs with an average yield of 5.6%. We understand the interest rate risks and prepayment risks associated with MBS and CMOs. In a declining interest rate environment, prepayments from MBS and CMOs could be expected to increase and the expected life of the investment could be expected to shorten. Conversely, if interest rates increase, prepayments could be expected to decline and the average life of the MBS and CMOs could be expected to extend. Additionally, changes in interest rates are reflected in the market value of the investment portfolio. During declining interest rates, the investment portfolio could be expected to have market value gains and in increasing rate environments, the market value could be expected to be negative. The change in market value, net of tax-effect, of the available-for-sale investment portfolio is also reflected in the Company's equity. At March 31, 2007, the average life of the investment portfolio was 4.0 years and the market value reflected a pre-tax gain of \$73,000.

A component of the Company's strategic plan has been to use its investment portfolio to offset, in part, its interest rate risk relating to variable rate loans. At March 31, 2007, an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the investment portfolio by approximately \$5,868,000. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the investment portfolio is \$5,682,000. The modeling environment assumes management would take no action during an immediate shock of 200 basis points. The likelihood of immediate changes of 200 basis points is contrary to expectation, as evidenced by the changes in interest rates during the past 12 months which were in 25 basis point increments. However, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements and to measure the possible future risk in the investment portfolio. For further discussion of the Company's market risk, refer to Item 3 - Quantitative and Qualitative Disclosures about Market Risk.

Management's review of all investments before purchase includes an analysis of how the security will perform under several interest rate scenarios to monitor whether investments are consistent with our investment policy. The policy addresses issues of average life, duration, and concentration guidelines, prohibited investments, impairment, and prohibited practices.

Total interest income for the first three months of 2007 increased \$564,000, to \$7,855,000 compared to \$7,291,000 for the three months ended March 31, 2006. The increase was due to the 0.9% increase in the average balance of interest earning assets, combined with the 43 basis point increase in the yield on those assets. Average interest earning assets increased to \$432,381,000 for the three months ended March 31, 2007 compared to \$428,386,000 for the three months ended March 31, 2006. The yield on interest earning assets increased to 7.41% for the three months ended March 31, 2007 compared to 6.98% for the three months ended March 31, 2006. The \$3,995,000 increase in average earning assets can be attributed to our own organic growth in loans funded by Fed funds and by the sales and maturities from the investment portfolio.

Interest expense on deposits for the three months ended March 31, 2007 increased \$561,000 or 44.5% to \$1,823,000 compared to \$1,262,000 for the three months ended March 31, 2006. This increase was due to an 86 basis point increase in deposit rates due to the increasing rate environment, which was partially offset by a \$7,804,000 decrease in the volume of average interest bearing deposits. Average interest-bearing deposits were \$276,960,000 for the three months ended March 31, 2007 compared to \$284,764,000 for the same period ended March 31, 2006. The 2.7% decrease was the result of increased competition for deposits in our market areas.

Average other borrowings decreased to \$4,550,000 with an effective rate of 5.63% for the three months ended March 31, 2007 compared to \$5,456,000 with an effective rate of 4.69% for the three months ended March 31, 2006. Included in other borrowings are advances from the Federal Home Loan Bank (FHLB) and a loan from a major bank, primarily to provide additional capital for the Bank in conjunction



with the merger of Bank of Madera County in 2005. This bank loan is indexed to prime rate or to the three-month LIBOR and reprices quarterly. The FHLB advances are fixed rate borrowings.

In partial offset to the increase in the cost of interest bearing deposits and other borrowings, the increase in non-interest bearing demand deposits has contributed in keeping the Company's cost of funds low. The cost of total deposits was 1.76% for the first quarter of 2007 compared to 1.21% for 2006. Average demand deposits increased 3.1% to \$136,879,000 for the three months ended March 31, 2007 from \$132,791,000 for the three months ended March 31, 2006. The cost of all of our interest bearing liabilities increased 85 basis points to 2.68% for the three months ended March 31, 2007 compared to 1.83% for the three months ended March 31, 2006. Average transaction accounts (including interest bearing checking, money market accounts and non interest bearing demand deposits) increased 1.4% to \$288,698,000 for the three months ended March 31, 2007 compared to \$284,699,000 for the three months ended March 31, 2006.

#### **Net Interest Income before Provision for Credit Losses**

Net interest income before provision for credit losses for the three months ended March 31, 2007 increased slightly by \$3,000 or 0.1% to \$5,968,000 compared to \$5,965,000 for the three months ended March 31, 2006. This increase was primarily due to the 8 basis point decline in the net interest margin as average interest earning assets increased and average interest bearing liabilities decreased. Average interest earning assets were \$432,381,000 for the three months ended March 31, 2007 with a net interest margin of 5.66% compared to \$428,386,000 with a net interest margin of 5.74% for the three months ended March 31, 2006. For a discussion of the repricing of our assets and liabilities, see Item 3 Quantitative and Qualitative Disclosure about Market Risk.

#### **Provision for Credit Losses**

We provide for possible credit losses by a charge to operating income based upon the composition of the loan portfolio, past delinquency levels, losses and non-performing assets, economic and environmental conditions and other factors which, in management's judgment, deserve recognition in estimating credit losses. Loans are charged off when they are considered uncollectible or of such little value that continuance as an active earning bank asset is not warranted.

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading is then submitted to the Chief Credit Administrator (CCA), who reviews the grades for accuracy and makes recommendations to Credit Review who gives final approval. The risk grading and reserve allocation is analyzed annually by a third party credit reviewer and by various regulatory agencies.

Quarterly, the CCA sets the specific reserve for all adversely risk-graded credits. This process includes the utilization of loan delinquency reports, classified asset reports, and portfolio concentration reports to assist in accurately assessing credit risk and establishing appropriate reserves. Reserves are also allocated to credits that are not adversely graded. Historical loss experience within the portfolio along with peer bank loss experiences are used in determining the level of the reserves held.

The allowance for credit losses is reviewed at least quarterly by the Board's Audit/Compliance Committee and by the Board of Directors. Reserves are allocated to loan portfolio categories using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. We have adopted the specific reserve approach to allocate reserves to each adversely graded asset, as well as to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety. Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or our own internal review process. Additions are also required when, in management's judgment, the allowance does not properly reflect the portfolio's potential loss exposure.

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The allocation of the allowance for credit losses is set forth below:

| Loan Type (Dollars in Thousands)                                     | March 31, 2007<br>Amount | Percent of Loans in<br>Each Category to<br>Total Loans | December 31, 2006<br>Amount | Percent of Loans in<br>Each Category to<br>Total Loans |
|----------------------------------------------------------------------|--------------------------|--------------------------------------------------------|-----------------------------|--------------------------------------------------------|
| Commercial & Industrial                                              | \$ 1,411                 | 23.9                                                   | % \$ 1,656                  | 24.2 %                                                 |
| Real Estate Secured                                                  | 1,392                    | 49.0                                                   | % 1,210                     | 46.3 %                                                 |
| Real Estate - construction, land<br>development and other land loans | 316                      | 15.5                                                   | % 294                       | 15.0 %                                                 |
| Equity Lines of Credit                                               | 165                      | 6.3                                                    | % 171                       | 6.8 %                                                  |
| Agricultural Production                                              | 191                      | 2.9                                                    | % 227                       | 5.3 %                                                  |
| Consumer & Installment                                               | 200                      | 2.3                                                    | % 193                       | 2.3 %                                                  |
| Other                                                                | 6                        | 0.1                                                    | % 1                         | 0.1 %                                                  |
| Non-specific reserve                                                 |                          |                                                        | 57                          |                                                        |
|                                                                      | \$ 3,681                 |                                                        | \$ 3,809                    |                                                        |

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate our potential losses. Management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.

Additions to the allowance for credit losses in the first three months of 2007 were \$120,000 compared to \$400,000 for the same period in 2006. The decrease in 2007 is due to our assessment of the required level and overall adequacy of the allowance for credit losses. During the quarter ended March 31, 2007, the Company had net charge offs totaling \$248,000 compared \$544,000 for the same period of 2006. During the quarter ended March 31, 2006, the Company charged off one commercial relationship totaling \$527,000.

The Company had no non-performing loans as of March 31, 2007 and December 31, 2006 compared to \$591,000 as of March 31, 2006 which represented one SBA loan. Non-performing loans as a percentage of loans were 0.2% at March 31, 2006. The Company did not have any other real estate owned at March 31, 2007, December 31, 2006 or March 31, 2006.

The net charge off ratio, which reflects net charge-offs to average loans for the three months ended March 31, 2007 was 0.078% compared to 0.184% for the same period in 2006. The historical ratios for the past three years were a net charge off ratio of 0.109% for 2006, 0.223% for 2005, and a net recovery ratio of 0.139% for 2004.

Based on information currently available, management believes that the allowance for credit losses is adequate to absorb estimated probable losses in the portfolio. However, no assurance can be given that we may not sustain charge-offs which are in excess of the allowance in any given period. Refer to Allowance for Credit Losses below for further information on the allowance for credit losses.

### Non-Interest Income

Non-interest income is comprised of customer service charges, loan placement fees, gain on sales of investment securities, appreciation in cash surrender value of bank owned life insurance and other income. Non-interest income was \$1,159,000 for the three months ended March 31, 2007 compared to \$1,057,000 for the same period ended March 31, 2006. The \$102,000 increase in non-interest was primarily due to increases in customer service charges partially offset by a decrease in the gain on sales of investment securities.

Customer service charges increased \$137,000 to \$692,000 for the first three months of 2007 compared to \$555,000 for the same period in 2006, mainly due to increased NSF fees on free checking accounts and transaction account service charges. These increases are mainly due to an increase in the activity level as the average number of transaction accounts has increased and the increase in fees generated by the overdraft protection program.

Net realized gains on sales of investment securities were \$44,000 for the first three months of 2007 compared to \$125,000 for the same period of 2006. In the first quarter of 2007, we sold certain municipal securities in order to provide liquidity for our loan growth. The result of the approximate \$5,655,000 liquidation was a net realized gain on sale of investments of \$44,000.

We earn loan placement fees from the brokerage of single-family residential mortgage loans which is mainly for the convenience of our customers. Loan placement fees increased \$14,000 in the first three months of 2007 to \$65,000 compared to \$51,000 for the first three months of 2006. Normal home sales due to moving up or relocating are relatively flat in Fresno and Madera counties and refinancing activity, which is

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the major component of our loan placement fees, has remained fairly consistent on a period over period basis. Commissions paid for personnel involved in generating loan placement fees are reflected as commissions in salary expense.

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Appreciation in cash surrender value of bank owned life insurance (BOLI) remained relatively unchanged comparing the first quarter of 2007 with the same period in 2006. The average balance in this portfolio decreased comparing the two periods while the yield increased. The Bank's salary continuation, deferred compensation plans and the related BOLI are used as a retention tool for directors and key executives of the Bank.

The Bank holds stock from the Federal Home Loan Bank in relationship with the borrowing capacity and generally earns quarterly dividends. We currently hold \$1,918,000 in FHLB stock. Dividends in the first three months of 2007 increased \$9,000 compared to the same period in 2006.

Other income increased \$21,000 for the first three months of 2007 compared to the same period in 2006. The increase can be attributed primarily to an increase in merchant fees from bankcards.

### Non-Interest Expenses

Salaries and employee benefits, occupancy, professional services, and data processing are the major categories of non-interest expenses. Non-interest expenses increased \$308,000 to \$4,705,000 for the three months ended March 31, 2007 compared to \$4,397,000 for the three months ended March 31, 2006.

The Company's efficiency ratio, measured as the percentage of non-interest expenses (exclusive of amortization of core deposit intangible assets) to net interest income before provision for credit losses plus non-interest income, was 65.7% for the first three months of 2007 compared to 62.6% for the first three months of 2006. The primary drivers for this change were increases in salaries and benefits expenses and occupancy expenses partially offset by the increased non-interest income.

Salaries and employee benefits increased \$131,000 or 5.1 % to \$2,708,000 for the first three months of 2007 compared to \$2,577,000 for the first three months of 2006. The increase in salaries and employee benefits for the 2007 period can be attributed to normal cost increases for salaries and benefits and an increase in the number of employees primarily from the new employees for our Downtown Fresno and Sunnyside branches. Commissions paid for loan placements are also in this category and increased \$23,000 in the periods under review.

Occupancy and equipment expense increased \$95,000 to \$650,000 for the first three months of 2007 compared to \$555,000 for the first three months of 2006. The 17.1% increase in occupancy expense for the three months ended March 31, 2007 was due mainly to the opening of new branches in downtown Fresno and Sunnyside, our move to a new corporate headquarters and capitalized technology upgrades during 2006.

Other non-interest expenses increased \$82,000 or 6.5% in the period under review. The following table shows significant components of other non-interest expense as a percentage of average assets.

| For the three months ended March 31,<br>(Dollars in thousands) | Other Expense<br>2007 | Annualized %<br>Avg. Assets |   | Other Expense<br>2006 | Annualized %<br>Avg. Assets |   |
|----------------------------------------------------------------|-----------------------|-----------------------------|---|-----------------------|-----------------------------|---|
| Advertising                                                    | \$ 116                | 0.10                        | % | \$ 113                | 0.10                        | % |
| Audit/accounting                                               | 78                    | 0.07                        | % | 93                    | 0.08                        | % |
| Data/item processing                                           | 203                   | 0.17                        | % | 200                   | 0.17                        | % |
| ATM/debit card expenses                                        | 71                    | 0.06                        | % | 70                    | 0.06                        | % |
| Director fees                                                  | 43                    | 0.04                        | % | 34                    | 0.03                        | % |
| Donations                                                      | 35                    | 0.03                        | % | 23                    | 0.02                        | % |
| General Insurance                                              | 22                    | 0.02                        | % | 22                    | 0.02                        | % |
| Legal fees                                                     | 61                    | 0.05                        | % | 67                    | 0.06                        | % |
| Postage                                                        | 41                    | 0.03                        | % | 41                    | 0.03                        | % |
| Regulatory assessments                                         | 27                    | 0.02                        | % | 29                    | 0.02                        | % |
| Stationery/supplies                                            | 52                    | 0.04                        | % | 63                    | 0.05                        | % |
| Telephone                                                      | 49                    | 0.04                        | % | 25                    | 0.02                        | % |
| Operating losses                                               | 13                    | 0.01                        | % | 1                     | 0.00                        | % |
| Other                                                          | 536                   | 0.45                        | % | 484                   | 0.41                        | % |
| Total other non-interest expense                               | \$ 1,347              |                             |   | \$ 1,265              |                             |   |



**Provision for Income Taxes**

The effective income tax rate was 36.9% for the three months ended March 31, 2007 compared to 35.7% for the three months ended March 31, 2006. Provision for income taxes totaled \$850,000 and \$795,000 for the three months ended March 31, 2007, and 2006, respectively.

**FINANCIAL CONDITION****Summary of Changes in Consolidated Balance Sheets**

March 31, 2007 compared to December 31, 2006

As of March 31, 2007, total assets were \$472,211,000, a decrease of 5.6%, or \$27,848,000, compared to \$500,059,000 as of December 31, 2006. Total gross loans increased 1.4% or \$4,613,000, to \$327,275,000 as of March 31, 2007 compared to \$322,662,000 as of December 31, 2006. Total deposits decreased 6.1% or, \$26,877,000 to \$413,750,000 as of March 31, 2007 compared to \$440,627,000 as of December 31, 2006. Stockholders' equity increased to \$50,951,000 as of March 31, 2007 compared to \$49,778,000 as of December 31, 2006.

The influence of our agricultural portfolio, particularly for raisins and nuts, is reflected in the differences in loan and deposit volumes from December 31, 2006 to March 31, 2007. Generally, agricultural processors sell the crops harvested in the fourth quarter of each year and hold the funds to be disbursed to the farmers until the first quarter of the following year creating a temporary increase in deposits. In the first quarter of each year, the farmers then pay down their agricultural loans with their crop proceeds. Agricultural loans decreased 44.2% to \$9,547,000 as of March 31, 2007 from \$17,102,000 as of December 31, 2006. It is anticipated that agricultural borrowing will increase for the remainder of 2007. The impact of this from several large processors of nuts and raisins was the major contributor to the decrease in deposits from December 31, 2006 to March 31, 2007.

**Investments**

Our investment portfolio consists primarily of agency securities, mortgage backed securities, municipal securities, and overnight investments in the Federal Funds market and are all classified as available-for-sale. As of March 31, 2007, \$30,159,000 was held as collateral for public funds, treasury, tax, and for other purposes. Our investment policies are established by the Board of Directors and implemented by our Investment/Asset Liability Committee. It is designed primarily to provide and maintain liquidity, to enable us to meet our pledging requirements for public money and borrowing arrangements, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement our lending activities.

The level of our investment securities, as described in the table below, is generally considered higher than our peers due mostly to our relatively low loan to deposit ratio. The amortized cost of these investment securities decreased 8.9% from \$104,117,000 at December 31, 2006 to \$94,891,000 at March 31, 2007. The fair value of the portfolio reflected an unrealized gain of \$73,000 at March 31, 2007 compared to an unrealized loss of \$195,000 at December 31, 2006.

We held \$1,918,000 in Federal Home Loan Bank stock as of March 31, 2007 compared to \$1,891,000 as of December 31, 2006. The increase is the result of dividends received.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated:

| March 31, 2007<br>Investment Type                               | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>(Loss) | Estimated<br>Market<br>Value |
|-----------------------------------------------------------------|-------------------|-----------------------------|-------------------------------|------------------------------|
| U.S. Government agencies                                        | \$ 26,450         | \$ 83                       | \$ (291)                      | \$ 26,242                    |
| Obligations of states and political subdivisions                | 23,894            | 330                         | (116)                         | 24,108                       |
| U.S. Government agencies collateralized by mortgage obligations | 40,816            | 269                         | (160)                         | 40,925                       |
| Other securities                                                | 3,731             |                             | (42)                          | 3,689                        |
|                                                                 | \$ 94,891         | \$ 682                      | \$ (609)                      | \$ 94,964                    |



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| December 31, 2006<br>Investment Type                            | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>(Loss) | Estimated<br>Market<br>Value |
|-----------------------------------------------------------------|-------------------|-----------------------------|-------------------------------|------------------------------|
| U.S. Government agencies                                        | \$ 28,643         | \$ 34                       | \$ (358)                      | \$ 28,319                    |
| Obligations of states and political subdivisions                | 26,210            | 373                         | (168)                         | 26,415                       |
| U.S. Government agencies collateralized by mortgage obligations | 45,561            | 204                         | (237)                         | 45,528                       |
| Other securities                                                | 3,703             |                             | (43)                          | 3,660                        |
|                                                                 | \$ 104,117        | \$ 611                      | \$ (806)                      | \$ 103,922                   |

Management periodically evaluates each investment security for other than temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. Management has the ability and intent to hold securities with established maturity dates until recovery of fair value, which may be maturity, and believes it will be able to collect all amounts due according to the contractual terms for all of the underlying investment securities; therefore, management does not consider these investments to be other-than-temporarily-impaired.

## Loans

Total gross loans increased 1.4% or \$4,613,000, to \$327,275,000 as of March 31, 2007 compared to \$322,662,000 as of December 31, 2006. The following table sets forth information concerning the composition of our loan portfolio at the dates indicated:

| Loan Type<br>(Dollars in thousands)                             | March 31, 2007 | % of Total<br>loans | December 31, 2006 | % of Total<br>loans |
|-----------------------------------------------------------------|----------------|---------------------|-------------------|---------------------|
| Commercial & industrial                                         | \$ 78,474      | 23.9 %              | \$ 78,441         | 24.2 %              |
| Real estate                                                     | 138,555        | 42.2 %              | 128,790           | 39.8 %              |
| Real estate construction, land development and other land loans | 50,883         | 15.5 %              | 48,424            | 15.0 %              |
| Secured by Farmland                                             | 22,355         | 6.8 %               | 20,796            | 6.5 %               |
| Equity lines of credit                                          | 20,524         | 6.3 %               | 21,858            | 6.8 %               |
| Agricultural Production                                         | 9,547          | 2.9 %               | 17,102            | 5.3 %               |
| Consumer and installment                                        | 7,437          | 2.3 %               | 7,549             | 2.3 %               |
| Other                                                           | 244            | 0.1 %               | 454               | 0.1 %               |
|                                                                 | 328,019        | 100.0 %             | 323,414           | 100.0 %             |
| Deferred loan fees, net                                         | (744)          |                     | (752)             |                     |
| Allowance for credit losses                                     | (3,681)        |                     | (3,809)           |                     |
| Total loans                                                     | \$ 323,594     |                     | \$ 318,853        |                     |

As of March 31, 2007, a concentration of loans existed in loans collateralized by real estate (real estate, real estate construction, land development and other land loans, and equity lines of credit) comprising 70.8% of total loans. This level of concentration is consistent with 68.0% at December 31, 2006. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the our primary market areas, in particular, could have an adverse impact on collectibility, increase the level of real estate-related non-performing loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on our business, financial condition, results of operations and cash flows. The Company is not involved in any sub-prime mortgage lending activities and the loan portfolio does not include any sub prime mortgage loans at March 31, 2007 or December 31, 2006.

We believe that our commercial real estate loan underwriting policies and practices result in prudent extensions of credit, but recognize that our lending activities result in relatively high reported commercial real estate lending levels. Commercial real estate loans include certain loans which represent low to moderate risk and certain loans with higher risks.

The Board of Directors reviews and approves concentration limits and exceptions to limitations of concentration are reported to the Board of Directors at least quarterly.

**Non-performing assets.** Non-performing assets consist of non-performing loans, other real estate owned ( OREO ), and repossessed assets. Non-performing loans are those loans which have (i) been placed on non-accrual status, (ii) been subject to troubled debt

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restructurings, (iii) been classified as doubtful under our asset classification system, or (iv) become contractually past due 90 days or more with respect to principal or interest and have not been restructured or otherwise placed on non-accrual status. A loan is classified as non-accrual when 1) it is maintained on a cash basis because of deterioration in the financial condition of the borrower, 2) payment in full of principal or interest under the original contractual terms is not expected, or 3) principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection.

At March 31, 2007 and December 31, 2006, we had no non-accrual loans, OREO, repossessed assets or restructured loans. Management is not aware of any potential problem loans, which were current and accruing at March 31, 2007, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms. Management can give no assurance that non-accrual and other non-performing loans will not increase in the future.

**Classified Assets.** From time to time, management has reason to believe that certain borrowers may not be able to repay their loans within the parameters of the present repayment terms, even though, in some cases, the loans are current at the time. These loans are graded in the classified loan grades of substandard, doubtful, or loss and include non-performing loans. Each classified loan is monitored monthly.

**Allowance for Credit Losses.** We have established a methodology for the determination of provisions for credit losses. The methodology is set forth in a formal policy and takes into consideration the need for an overall allowance for credit losses as well as specific allowances that are tied to individual loans. Our methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and a specific allowance for identified problem loans.

In originating loans, we recognize that losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral securing the loan. The allowance is increased by provisions charged against earnings and reduced by net loan charge offs. Loans are charged off when they are deemed to be uncollectible, or partially charged off when portions of a loan are deemed to be uncollectible. Recoveries are generally recorded only when cash payments are received.

The allowance for credit losses is maintained to cover losses inherent in the loan portfolio. The responsibility for the review of our assets and the determination of the adequacy lies with management and our Directors' Audit Committee. They delegate the authority to the CCA to determine the loss reserve ratio for each type of asset and reviews, at least quarterly, the adequacy of the allowance based on an evaluation of the portfolio, past experience, prevailing market conditions, amount of government guarantees, concentration in loan types and other relevant factors.

The allowance for credit losses is an estimate of the losses that may be sustained in our loan and lease portfolio. The allowance is based on two principles of accounting: (1) Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable; and (2) SFAS No. 114, Accounting by Creditors for Impairment of a Loan and SFAS No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

Credit Administration adheres to an internal asset review system and loss allowance methodology designed to provide for timely recognition of problem assets and adequate valuation allowances to cover expected asset losses. The Bank's asset monitoring process includes the use of asset classifications to segregate the assets, largely loans and real estate, into various risk categories. The Bank uses the various asset classifications as a means of measuring risk and determining the adequacy of valuation allowances by using a nine-grade system to classify assets. All credit facilities exceeding 90 days of delinquency require classification.

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The following table sets forth information regarding our allowance for credit losses at the dates and for the periods indicated:

| (In thousands)                                               | For the Three Month<br>Period Ended<br>March 31, 2007 | For the Twelve Month<br>Period Ended<br>December 31, 2006 |
|--------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------|
| Balance, beginning of the year                               | \$ 3,809                                              | \$ 3,339                                                  |
| Provision charged to operations                              | 120                                                   | 800                                                       |
| Losses charged to allowance                                  | (274)                                                 | (721)                                                     |
| Recoveries                                                   | 26                                                    | 391                                                       |
| Balance, end of period                                       | \$ 3,681                                              | \$ 3,809                                                  |
| Ratio of non-performing loans to allowance for credit losses | 0.0                                                   | % 0.0                                                     |
| Allowance for credit losses to total loans                   | 1.12                                                  | % 1.18                                                    |

As of March 31, 2007 the balance in the allowance for credit losses was \$3,681,000 compared to \$3,809,000 as of December 31, 2006. The decrease was due to charge offs in 2007 being greater than the amount of the provision for loan losses. Charge offs totaled \$274,000 and consisted mainly of one commercial relationship totaling \$234,000. The balance of commitments to extend credit on undisbursed construction and other loans and letters of credit was \$146,718,000 as of March 31, 2007 compared to \$134,549,000 as of December 31, 2006. Risks and uncertainties exist in all lending transactions, and even though there have historically been no charge offs on construction and other loans that have not been fully disbursed, our management and Directors Loan Committee have established reserve levels based on historical losses as well as economic uncertainties and other risks that exist as of each reporting period.

As of March 31, 2007 the allowance was 1.12% of total gross loans compared to 1.18% as of December 31, 2006. During the three months ended March 31, 2007, there were no major changes in loan concentrations that significantly affected the allowance for credit losses. There have been no significant changes in estimation methods during the periods presented. Assumptions regarding the collateral value of various under performing loans may affect the level and allocation of the allowance for credit losses in future periods. The allowance may also be affected by trends in the amount of charge offs experienced or expected trends within different loan portfolios. There were no non-performing loans as of March 31, 2007 or December 31, 2006. Management believes the allowance at March 31, 2007 is adequate based upon its ongoing analysis of the loan portfolio, historical loss trends and other factors. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

## Deposits and Borrowings

Total deposits decreased \$26,877,000 or 6.1% to \$413,750,000 as of March 31, 2007 compared to \$440,627,000 as of December 31, 2006. Interest bearing deposits decreased \$12,231,000 or 4.2% to \$278,214,000 as of March 31, 2007 compared to \$290,445,000 as of December 31, 2006. Non-interest bearing deposits decreased \$14,646,000 or 9.8% to \$135,536,000 as of March 31, 2007 compared to \$150,182,000 as of December 31, 2006. As discussed above, we had several agricultural processors who held crop funds, mainly for raisins and nuts, in the fourth quarter of 2006 which were then paid out to farmers in the first quarter of 2007.

By expanding our branching network we anticipate broadening our deposit gathering base. We opened additional branches during 2006 in downtown Fresno, in the Sunnyside area of Fresno, and on Financial Drive in Fresno, California. We also relocated our Kerman branch to a larger facility the first quarter of 2007 and plan to relocate our Clovis in-store branch to a larger stand alone facility in early 2008.

The composition of the deposits and average interest rates paid at March 31, 2007 and December 31, 2006 is summarized in the table below.

| (Dollars in thousands) | March 31, 2007 | Percent of<br>Total<br>Deposits | Effective<br>Rate | December 31,<br>2006 | Percent of<br>Total<br>Deposits | Effective<br>Rate |
|------------------------|----------------|---------------------------------|-------------------|----------------------|---------------------------------|-------------------|
| NOW Accounts           | \$ 51,996      | 12.6                            | % 0.64            | % \$ 56,177          | 12.8                            | % 0.10            |
| MMA Accounts           | 95,310         | 23.0                            | % 2.59            | % 109,069            | 24.7                            | % 2.34            |
| Time Deposits          | 109,219        | 26.4                            | % 4.18            | % 104,170            | 23.6                            | % 3.65            |
| Savings Deposits       | 21,689         | 5.2                             | % 0.48            | % 21,029             | 4.8                             | % 0.45            |
| Total Interest-bearing | 278,214        | 67.2                            | % 2.63            | % 290,445            | 65.9                            | % 2.20            |

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|                      |            |       |   |            |       |   |
|----------------------|------------|-------|---|------------|-------|---|
| Non-interest bearing | 135,536    | 32.8  | % | 150,182    | 34.1  | % |
| Total deposits       | \$ 413,750 | 100.0 | % | \$ 440,627 | 100.0 | % |

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Short-term borrowings totaled \$938,000 as of March 31, 2007 compared to \$3,250,000 as of December 31, 2006. Short-term borrowings at March 31, 2007, represent principal payments coming due in the next twelve months on the loan with a major bank (described below). During the first quarter of 2007, the Company repaid \$312,000 on the bank note and \$2,000,000 in FHLB advances. We maintain a line of credit with the FHLB collateralized by commercial loans and government securities. Refer to Liquidity below for further discussion of FHLB advances.

The Company has a non-revolving loan agreement with a major bank under which it initially borrowed \$2,500,000 and which had \$938,000 in outstanding principal balance at March 31, 2007. The loan bears interest indexed to prime or LIBOR, at the Company's election and repays each quarter.

### Capital

Our stockholders' equity increased to \$50,951,000 as of March 31, 2007 compared to \$49,778,000 as of December 31, 2006. The increase in stockholders' equity is a result of net income of \$1,452,000 for the three months ended March 31, 2007 combined with the proceeds from the exercise of stock options, the recording of the stock based compensation expense, the change in the unrealized losses on the available for sale investment securities, and the repurchase of our common stock. During the quarter ended March 31, 2007, the Company repurchased 39,400 shares of its common stock for \$599,000 in open market trading and reached the \$1,000,000 limit authorized under the stock repurchase program previously approved by the Company's Board of Directors.

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.

During the period the Company's borrowing with a major bank, described above, remains outstanding, which is expected to be through December 2007, the Bank does not anticipate paying dividends to the Company except for dividends that are necessary to meet the ordinary and usual operating expenses of the Company provided that the Bank would not pay any dividend that would cause it to be deemed not well capitalized under applicable banking laws and regulations.

Management considers capital requirements as part of its strategic planning process. The strategic plan calls for continuing increases in assets and liabilities, and the capital required may therefore be in excess of retained earnings. The ability to obtain capital is dependent upon the capital markets as well as our performance. Management regularly evaluates sources of capital and the timing required to meet its strategic objectives.

The following table presents the Company's and the Bank's capital ratios as of March 31, 2007 and December 31, 2006.

| (Dollars in thousands)                               | March 31, 2007<br>Amount | Ratio |   | December 31, 2006<br>Amount | Ratio |   |
|------------------------------------------------------|--------------------------|-------|---|-----------------------------|-------|---|
| <b><u>Tier 1 Leverage Ratio</u></b>                  |                          |       |   |                             |       |   |
| Central Valley Community Bancorp and Subsidiary      | \$ 40,930                | 8.83  | % | \$ 39,864                   | 8.41  | % |
| Minimum regulatory requirement                       | 18,551                   | 4.00  | % | 18,967                      | 4.00  | % |
| Central Valley Community Bank                        | 40,623                   | 8.76  | % | 39,045                      | 8.24  | % |
| Minimum requirement for Well-Capitalized institution | 23,179                   | 5.00  | % | 23,703                      | 5.00  | % |
| Minimum regulatory requirement                       | 18,544                   | 4.00  | % | 18,963                      | 4.00  | % |
| <b><u>Tier 1 Risk-Based Capital Ratio</u></b>        |                          |       |   |                             |       |   |
| Central Valley Community Bancorp and Subsidiary      | 40,930                   | 11.27 | % | 39,864                      | 10.97 | % |
| Minimum regulatory requirement                       | 14,521                   | 4.00  | % | 14,536                      | 4.00  | % |
| Central Valley Community Bank                        | 40,623                   | 11.20 | % | 39,045                      | 10.72 | % |
| Minimum requirement for Well-Capitalized institution | 21,772                   | 6.00  | % | 21,852                      | 6.00  | % |
| Minimum regulatory requirement                       | 14,514                   | 4.00  | % | 14,568                      | 4.00  | % |
| <b><u>Total Risk-Based Capital Ratio</u></b>         |                          |       |   |                             |       |   |
| Central Valley Community Bancorp and Subsidiary      | 44,611                   | 12.29 | % | 43,673                      | 12.02 | % |
| Minimum regulatory requirement                       | 29,042                   | 8.00  | % | 29,073                      | 8.00  | % |
| Central Valley Community Bank                        | 44,304                   | 12.21 | % | 42,854                      | 11.77 | % |
| Minimum requirement for Well-Capitalized institution | 36,286                   | 10.00 | % | 36,419                      | 10.00 | % |
| Minimum regulatory requirement                       | 29,029                   | 8.00  | % | 29,135                      | 8.00  | % |



## Liquidity

Liquidity management involves our ability to meet cash flow requirements arising from fluctuations in deposit levels and demands of daily operations, which include funding of securities purchases, providing for customers' credit needs and ongoing repayment of borrowings. Our liquidity is actively managed on a daily basis and reviewed periodically by our management and Directors' Asset/Liability Committees. This process is intended to ensure the maintenance of sufficient funds to meet our needs, including adequate cash flow for off-balance sheet commitments.

Our primary sources of liquidity are derived from financing activities which include the acceptance of customer and, to a lesser extent, broker deposits, federal funds facilities and advances from the Federal Home Loan Bank of San Francisco. These funding sources are augmented by payments of principal and interest on loans, the routine maturities and pay downs of securities from the securities portfolio, the stability of our core deposits and the ability to sell investment securities. Primary uses of funds include withdrawal of and interest payments on deposits, originations and purchases of loans, purchases of investment securities, and payment of operating expenses.

As a means of augmenting our liquidity, we have established federal funds lines with correspondent banks. At March 31, 2007 our available borrowing capacity includes approximately \$18,000,000 in federal funds lines with our correspondent banks and \$14,147,000 in unused FHLB advances. We believe our liquidity sources to be stable and adequate. At March 31, 2007, we were not aware of any information that was reasonably likely to have a material effect on our liquidity position.

The following table reflects the Company's credit lines, balances outstanding, and pledged collateral at March 31, 2007 and December 31, 2006:

| Credit Lines<br>(In thousands)                                                     | March 31, 2007                                                      | Balance at<br>March 31, 2007 | December 31, 2006                                                   | Balance at<br>December 31, 2006 |
|------------------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------|---------------------------------------------------------------------|---------------------------------|
| Unsecured Credit Lines<br>(interest rate varies with<br>market)                    | \$ 18,000                                                           | \$ -0-                       | \$ 18,000                                                           | \$ -0-                          |
| Federal Home Loan<br>Bank (interest rate at<br>prevailing interest rate)           | Collateral pledged \$14,446<br>Fair Value of Collateral<br>\$14,440 | \$ -0-                       | Collateral pledged \$16,848<br>Fair Value of Collateral<br>\$16,758 | \$ 2,000                        |
| Federal Reserve Bank<br>(interest rate at<br>prevailing discount<br>interest rate) | Collateral pledged \$2,268<br>Fair Value of Collateral<br>\$2,205   | \$ -0-                       | Collateral pledged \$2,271<br>Fair Value of Collateral<br>\$2,200   | \$ -0-                          |

The liquidity of the parent company, Central Valley Community Bancorp is primarily dependent on the payment of cash dividends by its subsidiary, Central Valley Community Bank, subject to limitations imposed by the regulations.

## OFF-BALANCE SHEET ITEMS

In the ordinary course of business, the Company is a party to financial instruments with off-balance risk. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. For a fuller discussion of these financial instruments, refer to Note 5 Commitments and Contingencies of the Company's condensed consolidated financial statements included herein and Note 10 Commitments and Contingencies in the Company's 2006 Annual Report to Shareholders on Form 10-K.

In the ordinary course of business, the Company is party to various operating leases. For a fuller discussion of these financial instruments, refer to Note 10 Commitments and Contingencies in the Company's 2006 Annual Report to Shareholders on Form 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk (IRR) and credit risk constitute the two greatest sources of financial exposure for insured financial institutions. IRR represents the impact that changes in absolute and relative levels of market interest rates may have upon our net interest income (NII). Changes in the NII are the result of changes in the net interest spread between interest-earning assets and interest-bearing liabilities (timing risk), the relationship between various rates (basis risk), and changes in the shape of the yield curve.

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We realize income principally from the differential or spread between the interest earned on loans, investments, other interest-earning assets and the interest incurred on deposits and borrowings. The volumes and yields on loans, deposits and borrowings are affected by market interest rates. As of March 31, 2007, approximately 81.0% of our loan portfolio was tied to adjustable rate indices. The majority of these adjustable rate loans are tied to prime and reprice within 90 days. The majority of our time deposits have a fixed rate of interest. As

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of March 31, 2007, 91.4% of our time deposits mature within one year or less. As of March 31, 2007, \$938,000 of our short-term debt reprices on a quarterly basis.

Changes in the market level of interest rates directly and immediately affect our interest spread, and therefore profitability. Sharp and significant changes to market rates can cause the interest spread to shrink or expand significantly in the near term, principally because of the timing differences between the adjustable rate loans and the maturities (and therefore repricing) of the deposits and borrowings.

Our management and Board of Directors Asset/Liability Committees (ALCO) are responsible for managing our assets and liabilities in a manner that balances profitability, IRR and various other risks including liquidity. The ALCO operates under policies and within risk limits prescribed by, reviewed and approved by the Board of Directors.

The ALCO seeks to stabilize our NII by matching rate-sensitive assets and liabilities through maintaining the maturity and repricing of these assets and liabilities at appropriate levels given the interest rate environment. When the amount of rate-sensitive liabilities exceeds rate-sensitive assets within specified time periods, NII generally will be negatively impacted by an increasing interest rate environment and positively impacted by a decreasing interest rate environment. Conversely, when the amount of rate-sensitive assets exceeds the amount of rate-sensitive liabilities within specified time periods, net interest income will generally be positively impacted by an increasing interest rate environment and negatively impacted by a decreasing interest rate environment. The speed and velocity of the repricing of assets and liabilities will also contribute to the effects on our NII, as will the presence or absence of periodic and lifetime interest rate caps and floors.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Earnings simulations are produced using a software model that is based on actual cash flows and repricing characteristics for all of our financial instruments and incorporate market-based assumptions regarding the impact of changing interest rates on current volumes of applicable financial instruments.

Interest rate simulations provide us with an estimate of both the dollar amount and percentage change in NII under various rate scenarios. All assets and liabilities are normally subjected to up to 300 basis point increases and decreases in interest rates in 100 basis point increments. Under each interest rate scenario, we project our net interest income. From these results, we can then develop alternatives in dealing with the tolerance thresholds.

Approximately 81.0% of our loan portfolio is tied to adjustable rate indices and 50.7% of our loan portfolio reprices within 90 days. As of March 31, 2007, we had 93 loans totaling \$47,167,000 with floors ranging from 1% to 8% and ceilings ranging from 10% to 25%. In the current rate environment, the number of loans affected by floors and ceilings is minimal.

The following table shows the effects of changes in projected net interest income for the twelve months ending March 31, 2008 under the interest rate shock scenarios stated. The table was prepared as of March 31, 2007, at which time prime interest rate was 8.25%. The amounts identified in the table are not materially different from what we showed at December 31, 2006.

Sensitivity Analysis of Impact on Interest Income of Rate Changes

| Hypothetical<br>Change in Rates | Projected Net<br>Interest Income<br>(\$000) | \$ Change from Rates<br>at March 31, 2007<br>(\$000) | Percent<br>Change from Rates at<br>March 31, 2007 |
|---------------------------------|---------------------------------------------|------------------------------------------------------|---------------------------------------------------|
| UP 300 bp                       | \$ 27,048                                   | \$ 2,797                                             | 11.54 %                                           |
| UP 200 bp                       | 25,739                                      | 1,488                                                | 6.14 %                                            |
| UP 100 bp                       | 24,535                                      | 284                                                  | 1.17 %                                            |
| UNCHANGED                       | 24,251                                      | 0                                                    |                                                   |
| DOWN 100 bp                     | 24,219                                      | (32)                                                 | (0.13)%                                           |
| DOWN 200 bp                     | 23,349                                      | (902)                                                | (3.72)%                                           |
| DOWN 300 bp                     | 22,160                                      | (2,092)                                              | (8.62)%                                           |

Assumptions are inherently uncertain, and, consequently, the model cannot precisely measure net interest income or precisely predict the impact of changes in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and management strategies which might moderate the negative consequences of interest rate deviations. In the model above, the simulation shows that the Company is neutral over the one-year horizon. If interest rates increase or decline, there will be similar positive and negative impact to net interest income.



**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures with respect to the information generated for use in this Quarterly Report. The evaluation was based in part upon reports provided by a number of executives. The Company was not timely in filing a Report on Form 8-K with respect to executive compensation during this period, and the Company has adopted internal procedures to prevent recurrences. Based upon, and as of the date of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures, as so amended, were effective to provide reasonable assurances that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by the Company in the reports that it files or submits is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

There was no change in the Company's internal controls over financial reporting during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

In designing and evaluating disclosure controls and procedures, the Company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurances of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

**PART II OTHER INFORMATION****ITEM 1 LEGAL PROCEEDINGS****None****to report.**

**ITEM 1A RISK FACTORS** In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS**

A summary of the repurchase activity for the Company's quarter ending March 31, 2007 follows.

| Period                  | Total Number of<br>Shares Purchased | Average Price Paid<br>Per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plan (1) | Approximate Dollar Value of<br>Shares that May Yet Be Purchased<br>Under Current Plan |
|-------------------------|-------------------------------------|---------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
|                         |                                     |                                 |                                                                                  | \$ 605,000                                                                            |
| 01/01/2007 - 01/31/2007 | 36,200                              | \$ 15.20                        | 36,200                                                                           | \$ 54,820                                                                             |
| 02/01/2007 02/28/2007   | 3,200                               | \$ 15.15                        | 3,200                                                                            | \$ 6,340                                                                              |
| 03/01/2007 03/31/2007   |                                     |                                 |                                                                                  | \$ 6,340                                                                              |
| <b>Total</b>            | <b>39,400</b>                       | <b>\$ 15.19</b>                 | <b>39,400</b>                                                                    |                                                                                       |

(1) The Company approved a stock repurchase program effective October 23, 2006 and ending June 30, 2007 with the intent to purchase shares for an aggregate amount of \$1,000,000. As of March 31, 2007, the Company repurchased 65,600 shares at a cost of \$993,680.

(2) All share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

**None to report.**

**ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

**None to report.**

**ITEM 5 OTHER INFORMATION**

None to report.

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**ITEM 6 EXHIBITS**

(a) Exhibits

| Exhibit No. | Description                                                                                                                                           |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1        | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                |
| 31.2        | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                |
| 32.1        | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2        | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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**SIGNATURES**

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Central Valley Community Bancorp

Date: May 11, 2007

/s/ Daniel J. Doyle  
Daniel J. Doyle  
President and Chief Executive Officer

Date: May 11, 2007

/s/ David A. Kinross  
David A. Kinross  
Senior Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

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