

CENTRAL VALLEY COMMUNITY BANCORP

Form 10-Q

November 13, 2008

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## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

COMMISSION FILE NUMBER: 000 31977

## CENTRAL VALLEY COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction of incorporation or organization)

**77-0539125**

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

**7100 N. Financial Dr. Fresno, California**

(Address of principal executive offices)

**93720**

(Zip code)

Registrant's telephone number (559) 298-1775

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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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

As of November 12, 2008 there were 6,019,319 shares of the registrant's common stock outstanding

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**CENTRAL VALLEY COMMUNITY BANCORP**

**2008 QUARTERLY REPORT ON FORM 10-Q**

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**PART 1: FINANCIAL INFORMATION**

**ITEM 1: FINANCIAL STATEMENTS**



**CENTRAL VALLEY COMMUNITY BANCORP**

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share amounts)	September 30, 2008		December 31, 2007	
<b>ASSETS</b>				
Cash and due from banks	\$	19,461	\$	17,108
Federal funds sold		23,759		14,536
Total cash and cash equivalents		43,220		31,644
Securities:				
Available-for-sale investment securities (Amortized cost of \$94,388 at September 30, 2008 and \$84,139 at December 31, 2007)		90,533		84,373
Held-to-maturity, at amortized cost		7,453		
Loans, less allowance for credit losses of \$4,533 at September 30, 2008 and \$3,887 at December 31, 2007		349,345		337,241
Bank premises and equipment, net		5,940		5,767
Bank owned life insurance		6,911		6,723
Federal Home Loan Bank stock		2,110		2,022
Goodwill		8,934		8,934
Accrued interest receivable, intangibles and other assets		10,190		6,981
Total assets	\$	524,636	\$	483,685
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
Deposits:				
Non-interest bearing	\$	126,063	\$	128,120
Interest bearing		296,123		274,442
Total deposits		422,186		402,562
Short-term borrowings		19,900		20,000
Long-term debt		19,000		
Accrued interest payable and other liabilities		8,444		6,929
Total liabilities		469,530		429,491
Commitments and contingencies				
Shareholders' equity:				
Preferred stock, no par value; 10,000,000 shares authorized, no shares issued or outstanding				
Common stock, no par value; 80,000,000 authorized; outstanding 6,019,319 at September 30, 2008, 5,975,316 at December 31, 2007		14,016		13,571
Retained earnings		43,403		40,483
Accumulated other comprehensive (loss) income, net of tax		(2,313)		140
Total shareholders' equity		55,106		54,194
Total liabilities and shareholders' equity	\$	524,636	\$	483,685

See notes to unaudited condensed consolidated financial statements.

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(In thousands except earnings per share amounts)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2008	2007	2008	2007
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$ 6,165	\$ 7,155	\$ 18,851	\$ 20,733
Interest on Federal funds sold	78	109	206	408
Interest and dividends on investment securities:				
Taxable	1,209	805	3,126	2,575
Exempt from Federal income taxes	224	212	681	662
Total interest income	7,676	8,281	22,864	24,378
<b>INTEREST EXPENSE:</b>				
Interest on deposits	1,388	2,065	4,580	5,951
Other	265	30	686	143
Total interest expense	1,653	2,095	5,266	6,094
Net interest income before provision for credit losses	6,023	6,186	17,598	18,284
<b>PROVISION FOR CREDIT LOSSES</b>	635	120	905	360
Net interest income after provision for credit losses	5,388	6,066	16,693	17,924
<b>NON-INTEREST INCOME:</b>				
Service charges	827	707	2,473	2,064
Appreciation in cash surrender value of bank owned life insurance	64	57	188	168
Loan placement fees	19	33	74	161
Net realized gains on sales and calls of investment securities	156		156	44
Federal Home Loan Bank stock dividends	32	25	88	76
Gain on sale and disposal of equipment				4
Other income	284	253	915	833
Total non-interest income	1,382	1,075	3,894	3,350
<b>NON-INTEREST EXPENSES:</b>				
Salaries and employee benefits	2,775	2,731	8,491	8,103
Occupancy and equipment	713	675	2,023	1,982
Other expense	1,496	1,458	4,408	4,240
Total non-interest expenses	4,984	4,864	14,922	14,325
Income before provision for income taxes	1,786	2,277	5,665	6,949
<b>PROVISION FOR INCOME TAXES</b>	572	701	1,831	2,302
Net income	\$ 1,214	\$ 1,576	\$ 3,834	\$ 4,647
Basic earnings per share	\$ 0.20	\$ 0.26	\$ 0.64	\$ 0.78
Diluted earnings per share	\$ 0.19	\$ 0.25	\$ 0.61	\$ 0.73
Cash dividends per share	\$	\$	\$ 0.10	\$

See notes to unaudited condensed consolidated financial statements.



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**CENTRAL VALLEY COMMUNITY BANCORP**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

**AND THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2008**

**(Unaudited)**

(In thousands except share and per share amounts)	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive (Loss)/ Income (Net of Taxes)	Total Shareholders' Equity	Total Comprehensive Income
Balance, January 1, 2007	6,037,656	\$ 14,007	\$ 35,888	\$ (117)	\$ 49,778	
Comprehensive income:						
Net income			6,280		6,280	\$ 6,280
Other comprehensive loss, net of tax:						
Net change in unrealized gain (loss) on available-for-sale investment securities				257	257	257
Total comprehensive income						\$ 6,537
Cash dividend - \$.10 per share			(595)		(595)	
Repurchase and retirement of common stock	(186,800)	(1,617)	(1,090)		(2,707)	
Stock-based compensation expense		221			221	
Stock options exercised and related tax benefit	124,460	960			960	
Balance, December 31, 2007	5,975,316	13,571	40,483	140	54,194	
Comprehensive income:						
Net income			3,834		3,834	\$ 3,834
Other comprehensive loss, net of tax:						
Net change in unrealized gain (loss) on available-for-sale investment securities				(2,453)	(2,453)	(2,453)
Total comprehensive income						\$ 1,381
Cash dividend - \$.10 per share			(598)		(598)	
Stock options exercised and related tax benefit	44,003	264			264	
Stock-based compensation expense		181			181	
Cumulative effect of adopting EITF 06-4			(316)		(316)	
Balance, September 30, 2008	6,019,319	\$ 14,016	\$ 43,403	\$ (2,313)	\$ 55,106	

See notes to unaudited condensed consolidated financial statements.

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**CENTRAL VALLEY COMMUNITY BANCORP**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

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(In thousands)	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,834	\$ 4,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Net decrease in deferred loan fees	(68)	(133)
Depreciation, accretion and amortization, net	709	811
Stock-based compensation	181	144
Tax benefit from exercise of stock options	(57)	(369)
Provision for credit losses	905	360
Net realized gains on sales and calls of investment securities	(156)	(44)
Net gain on sale and disposal of equipment		(4)
Increase in bank owned life insurance, net of expenses	(188)	(169)
FHLB stock dividends	(88)	(76)
Net increase in accrued interest receivable and other assets	(1,531)	(257)
Net increase in accrued interest payable and other liabilities	1,199	368
Provision for deferred income taxes	(145)	(25)
Net cash provided by operating activities	4,595	5,253
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of available-for-sale investment securities	(43,657)	(4,044)
Purchases of held-to-maturity investment securities	(7,466)	
Proceeds from sales or calls of available-for-sale investment securities	10,782	5,699
Proceeds from maturity of available-for-sale investment securities	8,500	6,150
Proceeds from principal repayments of available-for-sale investment securities	14,436	11,327
Proceeds from principal repayments of held-to-maturity investment securities	23	
Net decrease in interest bearing deposits in other banks		205
Net FHLB stock purchases		(29)
Net increase in loans	(12,941)	(15,281)
Purchases of premises and equipment	(886)	(1,985)
Proceeds from sale of premises and equipment		4
Net cash (used in) provided by investing activities	(31,209)	2,046
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in demand, interest bearing and savings deposits	12,499	(37,755)
Net increase in time deposits	7,125	5,204
Proceeds from borrowings from Federal Home Loan Bank	164,500	67,500
Repayments to Federal Home Loan Bank	(145,600)	(59,500)
Repayments of borrowings from other financial institutions		(937)
Share repurchase and retirement		(2,402)
Proceeds from exercise of stock options	207	565
Tax benefit from exercise of stock options	57	369
Cash paid for dividends	(598)	(595)
Net cash provided by (used in) financing activities	38,190	(27,551)
Increase (decrease) in cash and cash equivalents	11,576	(20,252)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	31,644	48,116
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 43,220	\$ 27,864
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest expense	\$ 5,310	\$ 6,060
Income taxes	\$ 2,389	\$ 2,540
<b>Non-Cash Investing Activities:</b>		
Net pre-tax change in unrealized (losses) gains on available-for-sale investment securities	\$ (4,089)	\$ 340
<b>Non-Cash Financing Activities:</b>		
Tax benefit from stock options exercised	\$ 57	\$ 369

See notes to unaudited condensed consolidated financial statements



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**CENTRAL VALLEY COMMUNITY BANCORP**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Basis of Presentation**

The interim unaudited condensed consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim condensed consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2007 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the Company's financial position and shareholders' equity at September 30, 2008 and December 31, 2007, and the results of its operations for the three and nine month interim periods ended September 30, 2008 and September 30, 2007 and its cash flows for the nine month interim periods ended September 30, 2008 and September 30, 2007 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2008 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 (GAAP) 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 are 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 793,881 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 10,936 remain reserved for future grants. The plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the option price must be paid in full at the time it is exercised. The options under the plan expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. The vesting period is determined by the Board of Directors and is generally over five years.

In May 2005, the Company adopted the Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan). The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company, including restricted stock. The maximum number of shares that can be issued with respect to all awards under the plan is 476,000. Currently under the 2005 Plan, there are 15,000 shares reserved for issuance for options already granted to employees and 461,000 remain reserved for future grants as of September 30, 2008. 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.

#### *Stock Option Compensation*

For the nine month periods ended September 30, 2008 and 2007, the compensation cost recognized for stock option compensation was \$181,000 and \$144,000, respectively. For the quarter ended September 30, 2008 and 2007, compensation cost recognized was \$59,000 and \$48,000, respectively. The recognized tax benefit for stock option compensation expense was \$57,000 and \$370,000, for the nine month periods ended September 30, 2008 and 2007, respectively. For the three month period ended September 30, 2008, no tax benefit was recognized and for three month period in 2007, recognized tax benefits were \$205,000. As of September 30, 2008, there was \$645,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 3.1 years.

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

No options have been granted from either the 2000 Plan or the 2005 Plan in 2008. In the fourth quarter of 2007, the Board of Directors of the Company approved the cancellation of 15,000 stock options granted on May 1, 2006 and 78,900 stock options granted on April 23, 2007. The Board granted new options to the directors, senior managers and other employees in the same numbers and to the same employees who were holders of the cancelled options. The grant date of the new options was October 17, 2007 and the options were granted with an exercise price equal to the fair market value on the grant date of \$12.00 per share. The modification affected 60 employees and 8 directors and the total incremental compensation cost recognized in 2007 for the modification was \$29,000.

***Stock Option Activity***

A summary of the combined activity of the plans follows: