

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

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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 **JUNE 30, 2007**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 000—31977

**CENTRAL VALLEY COMMUNITY BANCORP**  
(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of incorporation or organization)

77-0539125  
(I.R.S. Employer Identification No.)

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).

Yes  No

As of August 8, 2007 there were 5,956,891 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)**

<b>(In thousands, except share amounts)</b>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 23,853	\$ 23,898
Federal funds sold	9,530	24,218
Total cash and cash equivalents	33,383	48,116
Interest bearing deposits in other banks	158	323
Available-for-sale investment securities (Amortized cost of \$90,446 at June 30, 2007 and \$104,117 at December 31, 2006)	89,591	103,922
Loans, less allowance for credit losses of \$3,743 at June 30, 2007 and \$3,809 at December 31, 2006	335,622	318,853
Bank premises and equipment, net	5,984	4,655
Bank owned life insurance	6,258	6,146
Federal Home Loan Bank stock	1,971	1,891
Goodwill and intangible assets	9,898	10,005
Accrued interest receivable and other assets	6,651	6,148
Total assets	\$ 489,516	\$ 500,059
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 138,185	\$ 150,182
Interest bearing	283,722	290,445
Total deposits	421,907	440,627
Short-term borrowings	10,625	3,250
Accrued interest payable and other liabilities	6,063	6,404
Total liabilities	438,595	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 5,958,786 at June 30, 2007 and 6,037,656 at December 31, 2006	12,475	14,007
Retained earnings	38,959	35,888
Accumulated other comprehensive loss, net of tax	(513)	(117)
Total shareholders' equity	50,921	49,778
Total liabilities and shareholders' equity	\$ 489,516	\$ 500,059

See notes to unaudited condensed consolidated financial statements.

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

(In thousands except earnings per share amounts)	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	2007	2006	2007	2006
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$ 7,005	\$ 6,320	\$ 13,578	\$ 12,315
Interest on Federal funds sold	155	165	299	435
Interest and dividends on investment securities:				
Taxable	873	838	1,770	1,558
Exempt from Federal income taxes	209	260	450	566
Total interest income	8,242	7,583	16,097	14,874
<b>INTEREST EXPENSE:</b>				
Interest on deposits	2,063	1,406	3,886	2,668
Other	49	132	113	196
Total interest expense	2,112	1,538	3,999	2,864
Net interest income before provision for credit losses	6,130	6,045	12,098	12,010
PROVISION FOR CREDIT LOSSES	120	100	240	500
Net interest income after provision for credit losses	6,010	5,945	11,858	11,510
<b>NON-INTEREST INCOME:</b>				
Service charges	665	650	1,357	1,205
Loan placement fees	63	145	128	196
Net realized (losses)gains on sales of investment securities	-	(16)	44	109
Appreciation in cash surrender value of bank owned life insurance	56	64	111	121
Federal Home Loan Bank stock dividends	23	21	51	40
Other income	309	282	584	532
Total non-interest income	1,116	1,146	2,275	2,203
<b>NON-INTEREST EXPENSES:</b>				
Salaries and employee benefits	2,664	2,624	5,372	5,201
Occupancy and equipment	657	582	1,307	1,137
Other expense	1,435	1,240	2,782	2,505
Total non-interest expenses	4,756	4,446	9,461	8,843
Income before provision for income taxes	2,370	2,645	4,672	4,870
PROVISION FOR INCOME TAXES	751	976	1,601	1,771
<b>Net income</b>	<b>\$ 1,619</b>	<b>\$ 1,669</b>	<b>\$ 3,071</b>	<b>\$ 3,099</b>
Basic earnings per share	\$ 0.27	\$ 0.28	\$ 0.51	\$ 0.52
Diluted earnings per share	\$ 0.25	\$ 0.26	\$ 0.48	\$ 0.48

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 SIX MONTH PERIOD ENDED JUNE 30, 2007**  
**(Unaudited)**

(In thousands except share and per share amounts)	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss)/ Income (Net of Taxes)	Total	Total
	Shares	Amount		Shareholders' Equity	Comprehensive Income	
Balance, January 1, 2006	5,891,820	\$ 13,053	\$ 28,977	\$ (507)	\$ 41,523	
Comprehensive income:						
Net income			6,911		6,911	\$ 6,911
Other comprehensive loss, net of tax:						
Net change in unrealized loss on available-for-sale investment securities				390	390	390
Total comprehensive income						\$ 7,301
Stock options exercised and related tax benefit	172,036	1,186			1,186	
Repurchase and retirement of common stock	(26,200)	(395)			(395)	
Stock-based compensation expense		163			163	
Balance, December 31, 2006	6,037,656	14,007	35,888	(117)	49,778	
Comprehensive income:						
Net income			3,071		3,071	\$ 3,071
Other comprehensive loss, net of tax:						
Net change in unrealized loss on available-for-sale investment securities				(396)	(396)	(396)
Total comprehensive income						\$ 2,675
Stock options exercised and related tax benefit	59,030	438			438	
Repurchase and retirement of common stock	(137,900)	(2,066)			(2,066)	
Stock-based compensation expense		96			96	
Balance, June 30, 2007	5,958,786	\$ 12,475	\$ 38,959	\$ (513)	\$ 50,921	

See notes to unaudited condensed consolidated financial statements.



**CENTRAL VALLEY COMMUNITY BANCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(Unaudited)**

<b>(In thousands)</b>	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,071	\$ 3,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (decrease) increase in deferred loan fees	(69)	162
Depreciation, accretion and amortization, net	551	928
Stock-based compensation	96	84
Tax benefit from exercise of stock options	(165)	(277)
Provision for credit losses	240	500
Net realized gains on sales and calls of available-for-sale investment securities	(44)	(109)
Net gain on sale and disposal of equipment	(4)	-
Increase in bank owned life insurance, net of expenses	(112)	(118)
FHLB stock dividends	(51)	(40)
Net (increase) decrease in accrued interest receivable and other assets	(226)	25
Net (decrease) increase in accrued interest payable and other liabilities	(176)	602
Provision for deferred income taxes	(15)	(10)
Net cash provided by operating activities	3,096	4,846
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash and cash equivalents acquired in acquisition	-	21
Purchases of available-for-sale investment securities	(2,572)	(17,588)
Proceeds from sales or calls of available-for-sale investment securities	5,699	12,023
Proceeds from principal repayments of available-for-sale investment securities	8,458	8,422
Proceeds from maturity of available-for-sale investment securities	2,150	-
Net decrease in interest bearing deposits in other banks	165	95
Net FHLB stock purchases	(29)	(142)
Net increase in loans	(16,939)	(3,797)
Purchases of premises and equipment	(1,792)	(553)
Proceeds from sale of equipment	4	-
Net cash used in investing activities	(4,856)	(1,519)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in demand, interest bearing and savings deposits	(28,167)	(41,874)
Net increase in time deposits	9,447	11,612
Proceeds from borrowings from Federal Home Loan Bank	57,500	9,788
Repayments to Federal Home Loan Bank	(49,500)	(2,000)
Repayments of borrowings from other financial institutions	(625)	(625)
Share repurchase and retirement	(2,066)	-
Proceeds from exercise of stock options	273	379
Tax benefit from exercise of stock options	165	277
Net cash used in financing activities	(12,973)	(22,443)
Decrease in cash and cash equivalents	(14,733)	(19,116)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,116	51,995
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 33,383	\$ 32,879
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for:		
Interest expense	\$ 3,962	\$ 2,684

Income taxes	\$	1,890	\$	1,340
<b>Non-Cash Investing Activities:</b>				
Net change in unrealized gain on available-for-sale investment securities	\$	(660)	\$	(1,440)

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**Non-Cash Financing Activities:**

Tax Benefit from stock options exercised	\$	165	\$	277
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**Supplemental schedules related to acquisition:**

Acquisition of Bank of Madera County:				
Intangibles	\$	-	\$	21
Cash acquired, net of cash paid to Bank of Madera County shareholders	\$	-	\$	21

**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 June 30, 2007 and December 31, 2006, and the results of its operations for the three and six month interim periods ended June 30, 2007 and June 30, 2006 and its cash flows for the six month interim period ended June 30, 2007 and June 20, 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 912,864 shares remain reserved for issuance for options already granted to employees and directors under incentive and nonstatutory agreements and 1,386 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**

There were 78,900 options granted in 2007 and 15,000 were granted in 2006. For the six month periods ended June 30, 2007 and 2006, the compensation cost recognized for stock option compensation was \$96,000 and \$84,000, respectively. For the quarter ended June 30, 2007 and 2006, compensation cost recognized was \$59,000 and \$15,000, respectively. The recognized tax benefit for stock option compensation expense was \$165,000 and \$277,000, for the six month periods ended June 30, 2007 and 2006, respectively. For the three month periods ended June 30, 2007 and 2006, recognized tax benefits were \$131,000 and \$242,000, respectively. As of June 30, 2007, there was \$726,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 1992 Plan and 2000 Plan. The cost is expected to be recognized over a weighted average period of 4 years.

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

**Stock Option Activity**

A summary of the combined activity of the plans follows:

		Six Months ended June 30, 2007		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Average Intrinsic Value (In thousands)
Options outstanding, beginning of period	899,834	\$ 6.45		\$ 7,563
Options granted	78,900	14.69		
Options exercised	(59,030)	\$ 4.62		
Options canceled	(6,840)	\$ 13.07		
Options outstanding, end of period	912,864	\$ 7.24	5.05	\$ 7,094
Options vested or expected to vest at June 30, 2007	876,787	\$ 7.04	7.17	\$ 6,977
Options exercisable, end of period	697,784	\$ 5.22	3.95	\$ 6,822

The total intrinsic value of options exercised in the six months ended June 30, 2007 and 2006, was \$403,000 and \$928,000, 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.

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

<b>Basic Earnings Per Share</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
In thousands (except share and per share amounts)	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 1,619	\$ 1,669	\$ 3,071	\$ 3,099
Weighted average shares outstanding	5,990,140	5,957,940	6,007,534	5,935,453
Net income per share	\$ 0.27	\$ 0.28	\$ 0.51	\$ 0.52

<b>Diluted Earnings Per Share</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
In thousands (except share and per share amounts)	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 1,619	\$ 1,669	\$ 3,071	\$ 3,099
Weighted average shares outstanding	5,990,140	5,957,940	6,007,534	5,935,453
Effect of dilutive stock options	401,452	511,997	412,332	521,005
Weighted average shares of common stock and common stock equivalents	6,391,592	6,469,937	6,419,866	6,456,458
Net income per diluted share	\$ 0.25	\$ 0.26	\$ 0.48	\$ 0.48

#### 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 June 30, 2007 and 2006 was \$1,062,000 and \$978,000 and was \$2,675,000 and \$2,235,000 for the six month periods ended June 30, 2007 and 2006, respectively.

#### 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 \$141,476,000 and \$133,937,000 were outstanding at June 30, 2007 and December 31, 2006, respectively. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Undisbursed lines of credit amounting to \$72,344,000 and \$71,040,000 were outstanding at June 30, 2007 and December 31, 2006, respectively. Undisbursed lines of credit are revolving lines of credit whereby customers can repay principal and advance principal during the term of the loan at their discretion and most expire between one and twelve months.

The Company has undisbursed portions of construction loans totaling \$17,938,000 and \$24,850,000 as of June 30, 2007 and December 31, 2006, respectively. These commitments are agreements to lend to a customer, subject to meeting certain construction progress requirements. The underlying construction loans have fixed expiration dates.

Standby letters of credit and financial guarantees amounting to \$1,137,000 and \$612,000 were outstanding at June 30, 2007 and December 31, 2006, respectively. Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees carry a one year term or less. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at June 30, 2007 and December 31, 2006. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

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

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

#### **Note 6. Income Taxes**

##### *Accounting for Uncertainty in Income Taxes*

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

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

#### **Note 7. Recent Accounting Developments**

##### *Fair Value Option for Financial Assets and Financial Liabilities*