COMMUNITY WEST BANCSHARES /
Form 10-Q
November 13, 2007

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2007

or

¨ **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: **000-23575**

**COMMUNITY WEST BANCSHARES**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| California<br>(State or other jurisdiction of incorporation or organization) | 77-0446957<br>(I.R.S. Employer Identification No.) |
| 445 Pine Avenue, Goleta, California<br>(Address of principal executive offices) | 93117<br>(Zip Code) |

(805) 692-5821
(Registrant's telephone number, including area code)

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 preceding 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. x 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. (Check one):
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares of common stock of the registrant outstanding as of November 13, 2007: 5,894,585 shares

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*The financial statements included in this Form 10-Q should be read with reference to Community West Bancshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2006.*

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**PART I – FINANCIAL INFORMATION**
**ITEM 1.FINANCIAL STATEMENTS**

**COMMUNITY WEST BANCSHARES**
**CONSOLIDATED BALANCE SHEETS**

| | September 30, 2007 (unaudited) | December 31, 2006 |
|---|---|---|
| | (in thousands) | |
| **ASSETS** | | |
| Cash and due from banks | $ 5,394 | $ 4,190 |
| Federal funds sold | 10,844 | 7,153 |
| Cash and cash equivalents | 16,238 | 11,343 |
| Time deposits in other financial institutions | 654 | 536 |
| Investment securities available-for-sale, at fair value; amortized cost of $20,489 at September 30, 2007 and $22,340 at December 31, 2006 | 20,371 | 22,097 |
| Investment securities held-to-maturity, at amortized cost; fair value of $16,149 at September 30, 2007 and $10,437 at December 31, 2006 | 16,236 | 10,535 |
| Federal Home Loan Bank stock, at cost | 5,123 | 4,465 |
| Federal Reserve Bank stock, at cost | 812 | 812 |
| Loans: | | |
| Loans held for sale, at lower of cost or fair value | 96,978 | 75,795 |
| Loans held for investment, net of allowance for loan losses of $4,293 at September 30, 2007 and $3,926 at December 31, 2006 | 408,237 | 375,777 |
| Total loans | 505,215 | 451,572 |
| Servicing rights | 1,383 | 1,968 |
| Other assets acquired through foreclosure, net | 558 | 582 |
| Premises and equipment, net | 3,114 | 2,802 |
| Other assets | 11,281 | 9,903 |
| **TOTAL ASSETS** | $ 580,985 | $ 516,615 |
| **LIABILITIES** | | |
| Deposits: | | |
| Non-interest-bearing demand | $ 33,602 | $ 33,033 |
| Interest-bearing demand | 78,763 | 49,975 |
| Savings | 15,395 | 14,522 |
| Time certificates | 287,848 | 271,217 |
| Total deposits | 415,608 | 368,747 |
| Federal Home Loan Bank advances | 109,000 | 95,000 |
| Other liabilities | 6,899 | 6,048 |
| Total liabilities | 531,507 | 469,795 |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, no par value; 10,000,000 shares authorized; issued and outstanding: 5,881,085 at September 30, 2007 and 5,814,568 at December 31, 2006 | 31,391 | 30,794 |
| Retained earnings | 18,157 | 16,169 |
| Accumulated other comprehensive loss, net | (70) | (143) |
| Total stockholders' equity | 49,478 | 46,820 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 580,985 | $ 516,615 |

See accompanying notes.

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**COMMUNITY WEST BANCSHARES**
**CONSOLIDATED INCOME STATEMENTS (UNAUDITED)**

| | Three Months Ended September 30, 2007 | Three Months Ended September 30, 2006 | Nine Months Ended September 30, 2007 | Nine Months Ended September 30, 2006 |
|---|---|---|---|---|
| | (dollars in thousands, except per share amounts) | | | |
| **INTEREST INCOME** | | | | |
| Loans | $ 11,341 | $ 9,729 | $ 32,706 | $ 27,144 |
| Investment securities | 504 | 414 | 1,407 | 1,143 |
| Other | 185 | 133 | 589 | 415 |
| Total interest income | 12,030 | 10,276 | 34,702 | 28,702 |
| **INTEREST EXPENSE** | | | | |
| Deposits | 4,631 | 3,517 | 13,174 | 9,470 |
| Other borrowings | 1,246 | 972 | 3,636 | 2,443 |
| Total interest expense | 5,877 | 4,489 | 16,810 | 11,913 |
| **NET INTEREST INCOME** | 6,153 | 5,787 | 17,892 | 16,789 |
| Provision for loan losses | 547 | 12 | 769 | 337 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES** | 5,606 | 5,775 | 17,123 | 16,452 |
| **NON-INTEREST INCOME** | | | | |
| Gains from loan sales, net | 361 | 318 | 693 | 1,144 |
| Other loan fees | 587 | 703 | 2,132 | 1,959 |
| Other | 264 | 432 | 964 | 1,256 |
| Total non-interest income | 1,212 | 1,453 | 3,789 | 4,359 |
| **NON-INTEREST EXPENSES** | | | | |
| Salaries and employee benefits | 3,383 | 3,275 | 10,626 | 9,699 |
| Occupancy and equipment expenses | 682 | 573 | 1,907 | 1,724 |
| Other operating expenses | 1,089 | 846 | 3,123 | 2,468 |
| Total non-interest expenses | 5,154 | 4,694 | 15,656 | 13,891 |
| Income before provision for income taxes | 1,664 | 2,534 | 5,256 | 6,920 |
| Provision for income taxes | 701 | 1,043 | 2,215 | 2,881 |
| **NET INCOME** | $ 963 | $ 1,491 | $ 3,041 | $ 4,039 |
| **INCOME PER SHARE – BASIC** | $ .16 | $ .26 | $ .52 | $ .70 |
| **INCOME PER SHARE – DILUTED** | $ .16 | $ .25 | $ .50 | $ .67 |
| Basic weighted average number of common shares outstanding | 5,877 | 5,787 | 5,852 | 5,778 |
| Diluted weighted average number of common shares outstanding | 6,009 | 6,008 | 6,027 | 5,995 |

See accompanying notes.

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**COMMUNITY WEST BANCSHARES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**
**(UNAUDITED)**

| | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **BALANCES AT JANUARY 1, 2007** | 5,815 | $ 30,794 | $ 16,169 | $ (143) | $ 46,820 |
| Exercise of stock options | 66 | 412 | | | 412 |
| Stock-based compensation | | 125 | | | 125 |
| Tax benefit from stock options | | 60 | | | 60 |
| Comprehensive income: | | | | | |
| Net income | | | 3,041 | | 3,041 |
| Change in unrealized loss on securities available-for-sale, net | | | | 73 | 73 |
| Comprehensive income | | | | | 3,114 |
| Cash dividends paid ($0.18 per share) | | | (1,053) | | (1,053) |
| **BALANCES AT SEPTEMBER 30, 2007** | 5,881 | $ 31,391 | $ 18,157 | $ (70) | $ 49,478 |

See accompanying notes.

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**COMMUNITY WEST BANCSHARES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|
| | (in thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 3,041 | $ 4,039 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 769 | 337 |
| Write-down of other assets acquired through foreclosure | 54 | - |
| Depreciation and amortization | 370 | 368 |
| Stock-based compensation | 125 | 120 |
| Net amortization of discounts and premiums for investment securities | (10) | 1 |
| Loss (gain) on: | | |
| Sale of other assets acquired through foreclosure | 13 | 19 |
| Sale of loans held for sale | (693) | (1,144) |
| Loans originated for sale, net | 1,729 | 1,404 |
| Changes in: | | |
| Servicing rights, net of amortization and valuation adjustments | 585 | 674 |
| Other assets | (1,502) | (209) |
| Other liabilities | 984 | 1,296 |
| Net cash provided by operating activities | 5,465 | 6,905 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of held-to-maturity securities | (7,881) | (2,479) |
| Purchase of available-for-sale securities | - | (3,976) |
| Purchase of Federal Home Loan Bank stock | (481) | (900) |
| Federal Home Loan Bank stock dividend | (177) | (110) |
| Principal pay downs and maturities of held-to-maturity securities | 2,185 | 1,626 |
| Principal pay downs and maturities of available-for-sale securities | 1,855 | 3,674 |
| Loan originations and principal collections, net | (55,499) | (46,327) |
| Proceeds from sale of other assets acquired through foreclosure | 7 | 104 |
| Net increase in time deposits in other financial institutions | (118) | (98) |
| Purchase of premises and equipment, net | (681) | (498) |
| Net cash used in investing activities | (60,790) | (48,984) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Exercise of stock options | 412 | 271 |
| Cash dividends paid on common stock | (1,053) | (982) |
| Net increase (decrease) in demand deposits and savings accounts | 30,230 | (15,158) |
| Net increase in time certificates of deposit | 16,631 | 42,689 |
| Proceeds from Federal Home Loan Bank advances | 45,000 | 29,500 |
| Repayment of Federal Home Loan Bank advances | (31,000) | (8,000) |
| Net cash provided by financing activities | 60,220 | 48,320 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 4,895 | 6,241 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 11,343 | 13,732 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 16,238 | $ 19,973 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |

| | | |
|---|---|---|
| Cash paid for interest | $ 14,844 | $ 10,740 |
| Cash paid for income taxes | 3,203 | 3,082 |
| Supplemental Disclosure of Noncash Investing Activity: | | |
| Transfers to other assets acquired through foreclosure | 51 | 116 |

See accompanying notes.

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**COMMUNITY WEST BANCSHARES**
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The interim consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the results of operations and financial condition for the interim period. The unaudited consolidated financial statements include Community West Bancshares (“CWBC") and its wholly-owned subsidiary, Community West Bank, N.A. ("CWB" or the “Bank”). CWBC and CWB are referred to herein as “the Company”. The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair statement have been reflected in the financial statements. However, the results of operations for the nine-month period ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Community West Bancshares included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Provision and Allowance for Loan Losses*** **–** The Company maintains a detailed, systematic analysis and procedural discipline to determine the amount of the allowance for loan losses (“ALL”). The ALL is based on estimates and is intended to be adequate to provide for probable losses inherent in the loan portfolio. This process involves deriving probable loss estimates that are based on individual loan loss estimation, migration analysis/historical loss rates and management’s judgment.

The Company employs several methodologies for estimating probable losses. Methodologies are determined based on a number of factors, including type of asset, risk rating, concentrations, collateral value and the input of the Special Assets group, functioning as a workout unit.

The ALL calculation for the different major loan types is as follows:

- SBA – All loans are reviewed and classified loans are assigned a specific allowance. Those not classified are assigned a pass rating. A migration analysis and various portfolio specific factors are used to calculate the required allowance on those pass loans.

- Relationship Banking – Includes commercial, commercial real estate and consumer loans. Classified loans are assigned a specific allowance. A migration analysis and various portfolio specific factors are used to calculate the required allowance on the remaining pass loans.

- Manufactured Housing – An allowance is calculated on the basis of historical loss experience, risk rating, which is a combination of delinquency, value of collateral on classified loans and perceived risk in the product line.

- Securitized Loans – The Company considers this a homogeneous portfolio and calculates the allowance based on statistical information provided by the servicer. Charge-off history is calculated based on two methodologies; a 12-month historical trend analysis and by delinquency information. The highest requirement of the two methods is used.

The Company calculates the required ALL on a monthly basis. Any difference between estimated and actual observed losses from the prior month are reflected in the current period required ALL calculation and adjusted as deemed necessary. The review of the adequacy of the allowance takes into consideration such factors as concentrations of credit, changes in the growth, size and composition of the loan portfolio, overall and individual portfolio quality, review of specific problem loans, collateral, guarantees and economic conditions that may affect the borrowers' ability to pay and/or the value of the underlying collateral. Additional factors considered include: geographic location of borrowers, changes in the Company's product-specific credit policy and lending staff experience. These estimates depend on the outcome of future events and, therefore, contain inherent uncertainties.

The Company's ALL is maintained at a level believed adequate by management to absorb known and inherent probable losses on existing loans. A provision for loan losses is charged to expense. The allowance is charged for losses when management believes that full recovery on the loan is unlikely. Generally, the Company charges off any loan classified as a "loss"; portions of loans which are deemed to be uncollectible; overdrafts which have been outstanding for more than 30 days; and, all other unsecured loans past due 120 or more days. Subsequent recoveries, if any, are credited to the ALL.

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***Servicing Rights*** –The guaranteed portion of certain SBA loans can be sold into the secondary market. Servicing rights are recognized as separate assets when loans are sold with servicing retained. Servicing rights are amortized in proportion to, and over the period of, estimated future net servicing income. The Company uses industry prepayment statistics and its own prepayment experience in estimating the expected life of the loans. Management periodically evaluates servicing rights for impairment. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost on a loan-by-loan basis. Fair value is determined using discounted future cash flows calculated on a loan-by-loan basis and aggregated to the total asset level. The initial servicing rights and resulting gain on sale are calculated based on the difference between the best actual par and premium bids on an individual loan basis.

***Other Assets Acquired Through Foreclosure*** – Other assets acquired through foreclosure includes real estate and other assets acquired through foreclosure on the collateral property and is recorded at fair value at the time of foreclosure less estimated costs to sell. Any excess of loan balance over the fair value of the other assets is charged-off against the allowance for loan losses. Subsequent to foreclosure, management periodically performs a new valuation and the asset is carried at the lower of carrying amount or fair value less cost of disposal. Operating expenses or income, and gains or losses on disposition of such properties, are recorded in current operations.

***Recent Accounting Pronouncements***– In June 2006, the FASB issued Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted this Statement on January 1, 2007. The adoption of FIN 48 did not have a material effect to our financial statements. We have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. GAAP. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective prospectively for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 on January 1, 2008, and is currently assessing the impact of the adoption of this Statement in light of recent FASB activity. On October 17, 2007, the FASB discussed the effective dates of both SFAS 157 and 159 (discussed below) and decided against a blanket deferral of the effective dates of those Statements. However, the Board will consider a potential deferral (1) of the application of SFAS 157 to the fair value measurement of non-financial assets and liabilities, and (2) of Statement 157's effective date for, as yet to be defined, "small" public companies.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 would allow the Company an irrevocable election to measure certain financial assets and liabilities at fair value, with unrealized gains and losses on the elected items recognized in earnings at each reporting period. The fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. The election is applied on an instrument by instrument basis, with a few exceptions, and is applied only to entire instruments and not to portions of instruments. SFAS 159 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. SFAS 159 is effective prospectively for fiscal years beginning after November 15, 2007. The Company is currently evaluating this Statement and has not yet determined the financial assets and liabilities, if any, for which the fair value option would be elected or the potential impact on the consolidated financial statements, if such election were made.

## 2. LOAN SALES AND SERVICING

***SBA Loan Sales* -** The Company periodically sells the guaranteed portion of selected SBA loans into the secondary market on a servicing-retained basis. The Company retains the unguaranteed portion of these loans and services the loans as required under the SBA programs to retain specified yield amounts. The SBA program stipulates that the Company retains a minimum of 5% of the loan balance, which is unguaranteed. The percentage of each unguaranteed loan in excess of 5% may be periodically sold to a third party, typically for a cash premium. The Company records servicing liabilities for the unguaranteed loans sold calculated based on the present value of the estimated future servicing costs associated with each loan. The balance of all servicing rights and obligations is subsequently amortized over the estimated life of the loans using an estimated prepayment rate of 25-30%. Quarterly, the servicing assets are analyzed for impairment.

The Company also periodically sells certain SBA 504 loans into the secondary market, on a servicing-released basis, typically for a cash premium.

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As of September 30, 2007 and December 31, 2006, the Company had approximately $96.5 million and $73.6 million, respectively, in SBA loans held for sale.

***Mortgage Loan Sales***– The Company enters into mortgage loan rate lock commitments (normally for 30 days) with potential borrowers. In conjunction therewith, the Company enters into a forward sale commitment to sell the locked loan to a third party investor. This forward sale agreement requires delivery of the loan on a "best efforts" basis but does not obligate the Company to deliver if the mortgage loan does not fund.

The mortgage rate lock agreement and the forward sale agreement generally qualify as derivatives under SFAS No. 133, as amended. The value of these derivatives is generally equal to the fee, if any, charged to the borrower at inception but may fluctuate in the event of changes in interest rates. These derivative financial instruments are recorded at fair value, if material. Although the Company does not attempt to qualify these transactions for the special hedge accounting afforded by SFAS No. 133, management believes that changes in the fair value of the two commitments generally offset and create an effective economic hedge. At September 30, 2007 and December 31, 2006, the Company had $1.4 million and $4.7 million, respectively, in outstanding mortgage loan rate lock and forward sale commitments, the impact of which was not material to the Company's financial position or results of operations.

## 3. LOANS HELD FOR INVESTMENT

The composition of the Company's loans held for investment and securitized loan portfolio follows:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| | (in thousands) | |
| Commercial | $ 66,051 | $ 53,725 |
| Real estate | 133,916 | 135,902 |
| SBA | 32,087 | 29,712 |
| Manufactured housing | 163,328 | 142,804 |
| Securitized | 7,977 | 9,950 |
| Other installment | 9,809 | 8,301 |
| | 413,168 | 380,394 |
| Less: | | |
| Allowance for loan losses | 4,293 | 3,926 |
| Deferred fees, net of costs | 51 | 17 |
| Purchased premiums on securitized loans | (84) | (128) |
| Discount on SBA loans | 671 | 802 |
| Loans held for investment, net | $ 408,237 | $ 375,777 |

An analysis of the allowance for credit losses for loans held for investment follows for the three and nine months ended:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2007 | 2006 |
| | (in thousands) | |
| Balance, beginning of period | $ 4,047 | $ 3,997 |
| Provision for loan losses | 547 | 12 |

| | | | | |
|---|---|---|---|---|
| Loans charged off | | (319) | | (271) |
| Recoveries on loans previously charged off | | 18 | | 160 |
| Balance, end of period | $ | 4,293 | $ | 3,898 |

As of September 30, 2007, and December 31, 2006, the Company also had reserves for credit losses on undisbursed loans of $92,000 and $117,000, respectively, included in other liabilities.

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| | Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of period | $ 3,926 | $ 3,954 |
| Provision for loan losses | 769 | 337 |
| Loans charged off | (499) | (607) |
| Recoveries on loans previously charged off | 97 | 214 |
| Balance, end of period | $ 4,293 | $ 3,898 |

The recorded investment in loans that is considered to be impaired:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| | (in thousands) | |
| Impaired loans without specific valuation allowances | $ 35 | $ 63 |
| Impaired loans with specific valuation allowances | 10,345 | 5,145 |
| Specific valuation allowances allocated to impaired loans | (946) | (641) |
| Impaired loans, net | $ 9,434 | $ 4,567 |
| | | |
| Average investment in impaired loans | $ 7,082 | $ 4,074 |

**4. EARNINGS PER SHARE**

***Earnings Per Share****– Basic* has been computed based on the weighted average number of shares outstanding during each period. *Earnings per share – Diluted* has been computed based on the weighted average number of shares outstanding during each period plus the dilutive effect of granted options. Earnings per share were computed as follows:

| | Three Months Ended September 30, 2007 | 2006 | Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|---|---|
| | (dollars in thousands except per share amounts) | | | |
| Weighted average shares – Basic | 5,877 | 5,787 | 5,852 | 5,778 |
| Dilutive effect of options | 132 | 221 | 175 | 217 |
| Weighted average shares – Diluted | 6,009 | 6,008 | 6,027 | 5,995 |
| | | | | |
| Net income | $ 963 | $ 1,491 | $ 3,041 | $ 4,039 |
| Earnings per share – Basic | .16 | .26 | .52 | .70 |
| Earnings per share – Diluted | .16 | .25 | .50 | .67 |

**5. BORROWINGS**

***Federal Home Loan Bank Advances****–* The Company has a blanket lien credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $109.0 million and $95.0 million at September 30, 2007 and December 31, 2006, respectively, and include $13.5 million and $44.5 million, respectively, borrowed at variable rates which adjust either monthly or quarterly to the current LIBOR rate. At September 30, 2007 and December 31, 2006, CWB had securities pledged to FHLB of $36.4

million at carrying value and loans of $189.0 million, and $32.4 million at carrying value and loans of $160.2 million, respectively. Total FHLB interest expense for the nine months ended September 30, 2007 and 2006 was $3.6 million and $2.4 million, respectively.  At September 30, 2007, CWB had $10.3 million available for additional borrowing.

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

***This discussion is designed to provide insight into management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. It should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto and the other financial information appearing elsewhere in this report.***

***Forward Looking Statements***

This Report on Form 10-Q contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in the forward-looking statements. The Company does not undertake any obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion should be read in conjunction with the Company's financial statements and the related notes provided under "Item 1—Financial Statements" above.

***Overview of Earnings Performance***

The Company earned net income of $963,000, or $0.16 per basic and diluted share, for the third quarter 2007. This represents a decline of 35.4% in net income over the comparable period of 2006. For the nine months ended September 30, 2007, the Company earned $3.0 million, or $0.52 per basic share and $0.50 per diluted share, a 24.7% decline from the comparable period 2006.

The significant factors impacting net income for the third quarter of 2007 were:

- a 17.1% increase in interest income primarily due to higher average loan balances which were $500 million for the third quarter 2007 compared to $422 million for the same period of 2006

- an interest rate curve that was relatively flat and at times even inverted contributed to higher deposit costs and compressed margins, creating a decline in net interest margin to 4.39% for the third quarter 2007 compared to 4.90% for the same period of 2006

- somewhat stabilized net interest margin as the decline from the second quarter 2007 to the third quarter was only 6 basis points, 4.45% to 4.39%, but that may be impacted by the September 50 bp reduction by the Fed in the target overnight rate

- the provision for loan losses for third quarter 2007 was $547,000 and, othe than volume-related provisions, the primary reason was the increase in charged-off loans

- an increase in non-interest expenses primarily due to an additional branch location, increased promotional expenses and FDIC insurance

The Company continues to focus on growing its loan portfolio despite increased industry-wide competition and a challenging interest rate environment.

***Critical Accounting Policies***

A number of critical accounting policies are used in the preparation of the Company's consolidated financial statements. These policies relate to areas of the financial statements that involve estimates and judgments made by management. These include: provision and allowance for loan losses and the valuation of servicing rights. These critical accounting policies are discussed in the Company's 2006 10-K with a description of how the estimates are determined and an indication of the consequences of an over or under estimate.

The Company believes that the discussion in Form 10-K addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective and complex judgments.

***Recent Accounting Pronouncements***– In June 2006, the FASB issued Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted this Statement on January 1, 2007. The adoption of FIN 48 did not have a material effect to our financial statements. We have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements.

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In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. GAAP. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective prospectively for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 on January 1, 2008, and is currently assessing the impact of the adoption of this Statement in light of recent FASB activity. On October 17, 2007, the FASB discussed the effective dates of both SFAS 157 and 159 (discussed below) and decided against a blanket deferral of the effective dates of those Statements. However, the Board will consider a potential deferral (1) of the application of SFAS 157 to the fair value measurement of non-financial assets and liabilities, and (2) of Statement 157's effective date for, as yet to be defined, "small" public companies.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 would allow the Company an irrevocable election to measure certain financial assets and liabilities at fair value, with unrealized gains and losses on the elected items recognized in earnings at each reporting period. The fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. The election is applied on an instrument by instrument basis, with a few exceptions, and is applied only to entire instruments and not to portions of instruments. SFAS 159 also provides expanded disclosure requirements regarding the effects of electing the fair value option on the financial statements. SFAS 159 is effective prospectively for fiscal years beginning after November 15, 2007. The Company is currently evaluating this Statement and has not yet determined the financial assets and liabilities, if any, for which the fair value option would be elected or the potential impact on the consolidated financial statements, if such election were made.

***Results ofOperations –Third Quarter Comparison***

The following table sets forth for the periods indicated, certain items in the consolidated income statements of the Company and the related changes between those periods:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | Increase (Decrease) |
| | (dollars in thousands, except per share amounts) | | |
| Interest income | $ 12,030 | $ 10,276 | $ 1,754 |
| Interest expense | 5,877 | 4,489 | 1,388 |
| Net interest income | 6,153 | 5,787 | 366 |
| Provision for loan losses | 547 | 12 | 535 |
| Net interest income after provision for loan losses | 5,606 | 5,775 | (169) |
| Non-interest income | 1,212 | 1,453 | (241) |
| Non-interest expenses | 5,154 | 4,694 | 460 |
| Income before provision for income taxes | 1,664 | 2,534 | (870) |
| Provision for income taxes | 701 | 1,043 | (342) |
| Net income | $ 963 | $ 1,491 | $ (528) |
| Earnings per share – Basic | $ .16 | $ .26 | $ (.10) |
| Earnings per share – Diluted | $ .16 | $ .25 | $ (.09) |
| Comprehensive income | $ 1,012 | $ 1,525 | $ (513) |

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The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

| | Three Months Ended September 30, 2007 versus 2006 | | |
|---|---|---|---|
| | Total change | Change due to | |
| | | Rate | Volume |
| | (in thousands) | | |
| Loans, net | $ 1,612 | $ (114) | $ 1,726 |
| Investment securities | 90 | 35 | 55 |
| Other | 52 | - | 52 |
| Total interest-earning assets | 1,754 | (79) | 1,833 |
| | | | |
| Deposits | 1,114 | 408 | 706 |
| Other borrowings | 274 | (16) | 290 |
| Total interest-bearing liabilities | 1,388 | 392 | 996 |
| Net interest income | $ 366 | $ (471) | $ 837 |

*Net Interest Income*

Total interest income increased by $1.8 million, or 17.1%, for the third quarter 2007 compared to the third quarter 2006. Loan interest income increased by $1.6 million, or 16.6%, for the third quarter 2007 compared to 2006. Virtually the entire increase was volume-related and was only partly offset by the impact of the change in rates. Interest income from manufactured housing, real-estate commercial and construction, commercial and SBA loan increased by $667,000, $213,000, $230,000 and $582,000, respectively for the third quarter 2007 compared to 2006. Average loan balances for these loan categories increased by 24.6%, 8.3%, 26.0% and 34.7%, respectively, compared to the third quarter 2006. The securitized loan portfolio continues to pay down resulting in a decline in interest income of $58,000 or 16.1%, for the third quarter 2007 compared to 2006.

Total interest expense increased $1.4 million, or 30.9%, for the third quarter 2007 compared to 2006. Interest on deposits increased $1.1 million, or 31.7%. Of this increase, $706,000 was attributed to deposit growth and $408,000 to increased rates on deposits. Interest expense on FHLB advances increased to $1.2 million for the third quarter 2007 compared to $972,000 for the same period of 2006.

The Federal Reserve Bank Open Market Committee's ("FOMC") recent rate cut will reduce interest income on the Bank's adjustable rate loans. Depending on market conditions and the yield curve, the Bank's deposit and borrowing costs may also decline, although not necessarily in a proportional manner. The precise impact of this combination of reduced interest income and funding costs is difficult to determine. The Bank's interest rate risk profile indicates a fairly balanced response to both rate increases and declines.

*Provision for Loan Losses*

The provision for loan losses was $547,000 for the third quarter 2007 compared to a provision of $12,000 the same period in 2006. The provision for the third quarter of 2006 was relatively low because the securitized loan portfolio experienced a negative provision of $165,000 and the provision for relationship banking loans was $28,000. For the third quarter of 2007, the provision related to the securitized loan portfolio was $135,000, contributing $300,000 to the difference between 2006 and 2007. The provision on relationship banking loans was $358,000 for the third quarter of 2007, a $330,000 increase. Partly offsetting these increases, the Bank experienced a decline in the provision for manufactured housing and SBA loans of $63,000 and $31,000, respectively.

The economy as a whole has recently experienced setbacks in the real estate and credit markets that have lead to a growth in non-performing assets for many financial institutions. The Bank has experienced an increase in impaired loans and has provided specific reserves believed to be adequate to cover potential losses. Nonetheless, increasing provisions for loan losses remain possible in the current economic environment.

*Non-Interest Income*

Non-interest income includes gains from sale of loans, loan document fees, service charges on deposit accounts, loan servicing fees and other revenues not derived from interest on earning assets. Total non-interest income decreased by $241,000, or 16.6%, for the third quarter 2007 primarily due to declines in loan servicing and other loan fees of $170,000 and $116,000, respectively. Gains on loan sales increased $43,000. Gains on mortgage loan sales declined slightly while SBA gain increased by $54,000.

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*Non-Interest Expenses*
Total non-interest expenses increased by $460,000, or 9.8%, for the third quarter 2007 compared to the same period of 2006, primarily due to overall staff growth, including an additional branch location and further development of two other branches that were added in the past two years. As a result of this growth, salaries and employee benefits increased $108,000, or 3.3%, for the third quarter 2007 compared to 2006. Other non-interest expenses increased by $352,000, or 24.8%, primarily due to increased rents, marketing, FDIC assessments and various other operating expenses.

***Results of Operations –Nine-Month Comparison***

The following table sets forth for the periods indicated, certain items in the consolidated income statements of the Company and the related changes between those periods:

| | Nine Months Ended September 30, 2007 | 2006 | Increase (Decrease) |
|---|---|---|---|
| | (dollars in thousands, except per share amounts) | | |
| Interest income | $ 34,702 | $ 28,702 | $ 6,000 |
| Interest expense | 16,810 | 11,913 | 4,897 |
| Net interest income | 17,892 | 16,789 | 1,103 |
| Provision for loan losses | 769 | 337 | 432 |
| Net interest income after provision for loan losses | 17,123 | 16,452 | 671 |
| Non-interest income | 3,789 | 4,359 | (570) |
| Non-interest expenses | 15,656 | 13,891 | 1,765 |
| Income before provision for income taxes | 5,256 | 6,920 | (1,664) |
| Provision for income taxes | 2,215 | 2,881 | (666) |
| Net income | $ 3,041 | $ 4,039 | $ (998) |
| Earnings per share – Basic | $ .52 | $ .70 | $ (.18) |
| Earnings per share – Diluted | $ .50 | $ .67 | $ (.17) |
| Comprehensive income | $ 3,114 | $ 3,954 | $ (840) |

The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

**Nine Months Ended**
**September 30,**
**2007 versus 2006**

**Total change** **Change due to**