Community Bancorp
Form 10-Q
November 14, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2005

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______.

Commission File No. 000 51044

COMMUNITY BANCORP

(Exact name of registrant as specified in its charter)

Nevada	**33-0668846**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
400 S. 4th Street, Suite 215, Las Vegas, NV	**89101**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number: (702) 878-0700

(Former Address)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) 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. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each issuer s classes of common stock, as of the latest practicable date. As of November 11, 2005, 7,363,362

COMMUNITY BANCORP

Quarterly Report on Form 10-Q

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Certification of CEO Pursuant to Section 302
Certification of CFO Pursuant to Section 302
Certification Pursuant to Section 906

Community Bancorp and Subsidiary

Consolidated Balance Sheets

September 30, 2005 and December 31, 2004 (Unaudited)

	September 30, 2005	December 31, 2004
	(dollars in thousands)	
Assets		
Cash and due from banks	**$ 27,370**	$ 5,328
Federal funds sold	**29,236**	61,926
Cash and cash equivalents	**56,606**	67,254
Securities available for sale	**96,517**	82,083
Securities held to maturity (fair market value approximates $1,654 and $2,041)	**1,606**	1,958
Investment in Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB) and Pacific Coast Bankers Bank (PCBB) stock	**3,744**	2,219
Loans, net of allowance for loan losses of $7,774 and $6,133	**627,574**	395,011
Premises and equipment, net	**15,090**	8,243
Other real estate owned		2,191
Accrued interest receivable	**3,041**	2,003
Deferred tax assets, net	**1,926**	2,112
Bank owned life insurance	**9,571**	9,194
Goodwill	**18,003**	
Core deposit intangible, net of amortization of $63 and $0	**5,268**	
Other assets	**3,633**	1,693
Total assets	**$ 842,579**	$ 573,961
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing demand	**$ 176,638**	$ 122,148
Interest bearing:		
Demand	**323,701**	221,542
Savings	**7,794**	5,829
Time, $100,000 or more	**76,575**	60,822
Other time	**94,416**	65,911
Total deposits	**679,124**	476,252
Short term borrowings	**16,000**	350
Long term debt	**3,500**	
Accrued stock appreciation rights	**350**	2,414
Accrued interest payable and other liabilities	**3,377**	1,928
Junior subordinated debt	**36,083**	15,464
	59,310	20,156
Commitments and Contingencies (Note 7)		
Stockholders equity		

Common stock, par value: $0.001; shares authorized: 10,000,000 shares issued: 2005: 7,397,737; 2004: 6,782,048	**7**	7
Additional paid-in capital	**71,141**	51,245
Retained earnings	**33,786**	26,698
Accumulated other comprehensive income (loss)	**(504)**	174
	104,430	78,124
Less cost of treasury stock, 34,375 shares	**(285)**	(285)
Less notes receivable arising from the exercise of common stock options		(286)
Total stockholders equity	**104,145**	77,553
Total liabilities and stockholders equity	**$ 842,579**	$ 573,961

See Notes to Unaudited Consolidated Financial Statements.

Community Bancorp and Subsidiary

Consolidated Statements of Income and Comprehensive Income

For the three months and nine months ended September 30, 2005 and 2004 (Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
	(dollars in thousands, except per share data)			
Interest and dividend income:				
Loans, including fees	**$ 11,343**	$ 6,447	**$ 27,067**	$ 19,270
Securities:				
Taxable	**646**	628	**1,889**	1,388
Non-taxable	**207**	221	**627**	662
Federal funds sold	**330**	232	**1,273**	493
Dividends	**35**	25	**87**	54
Total interest and dividend income	**12,561**	7,553	**30,943**	21,867
Interest expense on:				
Deposits	**2,858**	1,483	**6,851**	4,450
Short term borrowings	**176**	1	**185**	44
Long term debt	**12**		**12**	
Junior subordinated debt	**280**	197	**760**	553
	3,326	1,681	**7,808**	5,047
Net interest income	**9,235**	5,872	**23,135**	16,820
Provision for loan losses	**725**	360	**816**	582
Net interest income after provision for loan losses	**8,510**	5,512	**22,319**	16,238
Other income:				
Service charges and other income	**410**	234	**924**	752
Loan brokerage and referral fees	**68**	12	**85**	184
Income from bank owned life insurance	**128**	97	**378**	97
Net gain on sales of loans	**71**	25	**85**	52
Net gain on sales of securities		10		12
	677	378	**1,472**	1,097
Other expenses:				
Salaries, wages and employee benefits	**3,253**	2,167	**8,315**	6,437
Occupancy, equipment & depreciation	**650**	387	**1,377**	1,114
Advertising and public relations	**385**	259	**648**	473
Professional fees	**169**	103	**647**	227
Data processing	**183**	137	**498**	406
Stock appreciation rights	**90**	44	**439**	174
Stationery and supplies	**119**	61	**276**	180

Insurance	**77**	71	**204**	179
Director fees	**38**	31	**161**	136
Telephone and postage	**45**	46	**149**	152
Loan related	**41**	92	**117**	197
Software maintenance	**19**	26	**65**	81
Core deposit intangible amortization	**63**		**63**	
Foreclosed assets, net	**(47)**	12	**(234)**	109
Other	**336**	235	**760**	657
	5,421	3,671	**13,485**	10,522
Income before income taxes	**3,766**	2,219	**10,306**	6,813
Income tax expense	**1,080**	714	**3,218**	2,235
Net income	**$ 2,686**	$ 1,505	**$ 7,088**	$ 4,578
Other comprehensive income:				
Unrealized gain (loss) on securities available for sale	**(202)**	1,053	**(678)**	49
Comprehensive income	**$ 2,484**	$ 2,558	**$ 6,410**	$ 4,627
Earnings per share:				
Basic	**$ 0.38**	$ 0.32	**$ 1.04**	$ 0.98
Diluted	**$ 0.38**	$ 0.31	**$ 1.02**	$ 0.95
Dividends per share (paid in the form of stock)	**$**	$	**$**	$ 0.06

See Notes to Unaudited Consolidated Financial Statements.

Community Bancorp and Subsidiary

Consolidated Statement of Stockholders Equity

For the nine months ended September 30, 2005 (Unaudited)

(dollars in thousands, except share data)

Description	Common Stock Outstanding Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Notes Receivable	Total
Balance, December 31, 2004	6,747,673	$ 7	$ 51,245	$ 26,698	$ 174	$ (285)	$ (286)	$ 77,553
Net income				7,088				7,088
Unrealized holding losses on securities available for sale arising during the period, net of taxes of ($349)					(678)			(678)
Stock options exercised	7,174		51					51
Stock issuance for Bank of Commerce acquisition, net of registration costs of approximately ($160)	608,515		19,845					19,845
Repayment of loans secured by stock							286	286
Balance, September 30, 2005	**7,363,362**	**$ 7**	**$ 71,141**	**$ 33,786**	**$ (504)**	**$ (285)**	**$**	**$ 104,145**

See Notes to Unaudited Consolidated Financial Statements.

Community Bancorp and Subsidiary

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2005 and 2004 (Unaudited)

	2005	2004
	(dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	**$ 7,088**	$ 4,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	**608**	540
Amortization of core deposit intangible	**63**	
(Gain) loss on sale of foreclosed assets	**(262)**	96
Gain on sale of securities available for sale		(12)
Income from bank owned life insurance	**(378)**	(97)
Realized gain on sales of loans	**(85)**	(52)
Proceeds from sales of loans held for sale	**1,466**	
Originations of loans held for sale	**(1,381)**	
Deferred taxes	**535**	
Provision for loan losses	**816**	582
Tax benefit related to exercise of stock options		95
Net amortization of investment premium and discount	**413**	527
Increase in accrued interest receivable	**(445)**	(270)
Increase in other assets	**(1,223)**	(88)
Increase in accrued interest payable and other liabilities	**(828)**	(461)
Net cash provided by operating activities	**6,387**	5,438
Cash Flows from Investing Activities:		
Proceeds from maturities of and principal paydowns on securities held to maturity	**352**	111
Purchase of securities available for sale	**(12,481)**	(46,574)
Proceeds from maturities of and principal paydowns on securities available for sale	**18,176**	16,007
Proceeds from sales of securities available for sale		11,376
Investment in FHLB, FRB and PCBB stock	**(703)**	(965)
Purchase of premises and equipment	**(2,839)**	(312)
Proceeds from sale of foreclosed assets	**2,453**	445
Investment in bank owned life insurance		(9,000)
Net (increase) in loans	**(130,254)**	(39,048)
Cash paid for Bank of Commerce acquisition, net	**(6,357)**	
Net cash used in investing activities	**(131,653)**	(67,960)
Cash Flows from Financing Activities:		
Cash dividends paid for fractional shares		(9)
Net increase (decrease) in short term borrowings	**6,150**	(10,000)
Net increase in long term borrowings	**3,500**	
Net increase in deposits	**84,631**	77,766
Proceeds from issuance of junior subordinated debt	**20,000**	
Proceeds from repayment of loans secured by stock	**286**	
Proceeds from exercise of common stock options	**51**	84
Net cash provided by financing activities	**114,618**	67,841

Increase (decrease) in cash and cash equivalents	**(10,648)**	5,319
Cash and cash equivalents, beginning of period	**67,254**	36,005
Cash and cash equivalents, end of period	**$ 56,606**	$ 41,324

See Notes to Unaudited Consolidated Financial Statements.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business

Community Bancorp (the Company) is a holding company whose subsidiary, Community Bank of Nevada, is a Nevada state chartered bank that provides a full range of commercial and consumer bank products through nine branches located in the Las Vegas metropolitan area. The Company s business is concentrated in southern Nevada and is subject to the general economic conditions of this area. Segment information is not presented since all of the Company s revenues are attributable to one operating segment. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and general industry practice.

A summary of the significant accounting policies used by Community Bancorp and its subsidiary are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of Community Bancorp and its wholly owned subsidiary, Community Bank of Nevada (the Bank), collectively referred to herein as the Company. Significant intercompany accounts and transactions are eliminated in consolidation.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

Interim financial information

The accompanying unaudited consolidated financial statements as of September 30, 2005 and 2004 have been prepared in condensed format, and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for each respective period presented. Such adjustments are of a normal recurring nature. The results of operation in the interim statements are not necessarily indicative of the results that may be expected for any other quarter or for the full year. The interim financial information should be read in conjunction with the Company s Annual Report on Form 10-K. Condensed financial information as of December 31, 2004 has been presented next to the interim consolidated balance sheet for informational purposes.

Reclassifications

Certain amounts in the September 30, 2004 consolidated income statement were reclassified to conform to the 2005 presentation, with no effect on previously reported net income or stockholders equity.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 2. Merger-related Activity

On May 19, 2005, the Company entered into an Agreement to Merge and Plan of Reorganization (the Agreement) with Bank of Commerce (Commerce), pursuant to which, among other things, (i) Commerce would merge with the Bank, and (ii) the Bank would continue as the wholly-owned subsidiary of the Company. The Company acquired 100% of the stock of Commerce. Subsequent to the merger, the net assets of Commerce were distributed to the Company and the Commerce entity was dissolved.

In accordance with the Agreement, the merger was completed as of the close of business on August 26, 2005. The shareholders of Commerce who elected cash received cash for their shares based on a value of $33.00 per share; those who elected to receive stock in the Company received 1.0039 shares of the Company s common stock for each share of Commerce common stock; and those who elected to receive a combination of the two received the appropriate allocations of the elections made. The amount of cash paid and the Company s common stock issued in the merger were subject to certain allocation procedures designed to ensure that a maximum of 50% of the total consideration paid to holders of Commerce common stock was paid in cash and 50% in the Company s stock.

The transaction was valued at approximately $40,008,000, or $33.00 per share of Commerce common stock, including the fair value of options outstanding (the exchange ratio for stock consideration is 1.0039 shares of the Company s common stock for each Commerce share). The total consideration was paid in 608,515 shares of the Company s stock and approximately $20 million in cash, in accordance with the provisions of the Agreement. There were no material relationships between Commerce, its officers, shareholders or employees and the Company and subsidiaries, its officers, shareholders or employees, other than in respect to the transaction. Funds utilized in the transaction were solely from cash held by the Company. The purpose of the merger is to maximize shareholder value consistent with its fiduciary duties, while at the same time continuing to build a successful and profitable banking franchise.

The merger was accounted for under the purchase method of accounting. Accordingly, the results of operation of Commerce since the date of acquisition are included in the consolidated financial statements. The purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values at the merger date as summarized below (dollars in thousands).

Estimated fair value of approximately 608,515 shares of the Company s common stock issued:	$ 20,004	50.0%
Cash	20,004	50.0%
Total merger consideration	40,008	
Estimated acquisition costs		
Merger-related compensation and severance	99	
Professional services	363	
Total acquisition costs	462	
Estimated total purchase price	40,470	
Less fair value of Bank of Commerce net assets acquired	17,136	

Less estimated fair value of Core Deposit Intangible	5,331
Estimated goodwill resulting from the Merger	$ 18,003

The allocation of the purchase price may be modified as a result of the following items:

- the actual acquisition costs incurred by the Company, and
- final appraisals, evaluations and estimates of fair value.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 2. Merger-related Activity (continued)

The purchase price allocation is expected to be finalized within one year after completion of the merger.

Approximately $462,000 in costs were incurred in connection with the merger and are included as part of the purchase price of the merger, as set forth above.

In addition to the above transaction costs, the Company expects to incur integration costs of approximately $425,000 before taxes (approximately $280,000 after taxes). These estimated costs are primarily comprised of information technology conversion costs and upgrades and branch improvements. As of September 30, 2005, total integration costs incurred were approximately $38,000 (net of taxes).

As a result of the merger, the Company recorded $5.3 million of core deposit intangibles. As of September 30, 2005, the amortization period for the core deposit intangibles is 7 years. Amortization expense on core deposit intangibles was approximately $63,000 for the three months and nine months ended September 30, 2005. The Company estimates that the amortization expense will be approximately $254,000 for 2005 and $762,000 for years 2006 through 2009. The net book value of the core deposit intangible was $5,268,000 at September 30, 2005.

The cash received from the Bank of Commerce acquisition was $13.6 million.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 2. Merger-related Activity (continued)

Unaudited Pro Forma Condensed Combined Financial Information

The following unaudited pro forma condensed combined financial information presents the results of operations of the Company had the merger taken place at January 1, 2005 and January 1, 2004.

	Three months ended September 30, 2005	Nine months ended September 30, 2005
	(dollars in thousands, except share data)	
Net interest income	10,497	28,197
Other operating income	771	1,871
Provision for loan losses	1,045	1,507
Other operating expense	6,676	17,490
Income before income tax provision	3,547	11,071
Income tax provision	1,007	3,479
Net income	2,540	7,592
Earnings per share:		
Basic	0.34	1.03
Diluted	0.34	1.01
Average shares outstanding for basic earnings per share	7,363,362	7,358,565
Average shares outstanding for diluted earnings per share	7,497,773	7,483,041

	Three months ended September 30, 2004	Nine months ended September 30, 2004
	(dollars in thousands, except share data)	
Net interest income	7,435	21,292
Other operating income	513	1,576
Provision for loan losses	526	1,043
Other operating expense	4,958	14,321
Income before income tax provision	2,464	7,504
Income tax provision	797	2,469
Net income	1,667	5,035

Earnings per share:		
Basic	0.31	0.95
Diluted	0.30	0.93
Average shares outstanding for basic earnings per share	5,304,838	5,279,847
Average shares outstanding for diluted earnings per share	5,479,862	5,421,169

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 3. Employee Stock Plans

On May 19, 2005, the stockholders of the Company approved the 2005 Equity Based Compensation Plan (the 2005 Plan). The 2005 Plan authorizes the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units and performance share cash only awards. The 2005 Plan provides for a maximum of fifteen percent (15%) of the Company s outstanding shares as of March 24, 2005, or 1,012,539, and adjusts on each anniversary thereafter to be 15% of the then outstanding number of shares that may be delivered for awards. The maximum number of shares that may be granted as incentive stock options is 800,000.

At September 30, 2005, the Company also has a stock-based compensation plan, which is described more fully in Note 9 of the Annual Report. The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. Accordingly, no stock-based employee compensation cost has been recognized, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share had compensation cost for all of the stock-based compensation plans been determined based on the minimum value approach:

	For the three months ended September 30,		For the nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
	(dollars in thousands, except per share data)			
Net income:				
As reported	**$ 2,686**	$ 1,505	**$ 7,088**	$ 4,578
Deduct total stock-based employee compensation expense determined under minimum value method for all awards, net of related tax effects	**(460)**	(23)	**(502)**	(47)
Pro forma	**$ 2,226**	$ 1,482	**$ 6,586**	$ 4,531
Earnings per share:				
As reported				
Basic	**$ 0.38**	$ 0.32	**$ 1.04**	$ 0.98
Diluted	**$ 0.38**	$ 0.31	**$ 1.02**	$ 0.95
Pro forma:				
Basic	**$ 0.32**	$ 0.32	**$ 0.96**	$ 0.97
Diluted	**$ 0.31**	$ 0.30	**$ 0.95**	$ 0.94

The pro forma compensation cost was recognized for the fair value of the stock options granted, which was estimated using the minimum value method. The assumptions used in determining the fair value per optional share of $10.44 for stock options granted in the nine months ended September 30, 2005, were as follows: expected life of seven years, volatility of 20% and risk free interest rate of 3.875%.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 4. Earnings Per Share

Basic earnings per share (EPS) represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding options, and are determined using the treasury stock method.

Earnings per common share have been computed based on the following:

	For the three months ended September 30,	
	2005	**2004**
	(dollars in thousands, except share data)	
Net income	**$ 2,686**	$ 1,505
Average number of common shares outstanding	**6,986,350**	4,696,323
Effect of dilutive options	**134,411**	175,024
Average number of common shares outstanding used to calculate diluted earnings per common share	**7,120,761**	4,871,347
Basic EPS	**$ 0.38**	**$ 0.32**
Diluted EPS	**$ 0.38**	**$ 0.31**

	For the nine months ended September 30,	
	2005	**2004**
	(dollars in thousands, except share data)	
Net income	**$ 7,088**	$ 4,578
Average number of common shares outstanding	**6,830,294**	4,671,332
Effect of dilutive options	**124,476**	141,322
Average number of common shares outstanding used to calculate diluted earnings per common share	**6,954,770**	4,812,654
Basic EPS	**$ 1.04**	**$ 0.98**
Diluted EPS	**$ 1.02**	**$ 0.95**

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 5. Current Accounting Developments

In December 2004, the Financial Accounting Standards Board (FASB) published FASB Statement No. 123 (revised 2004), *Share-Based Payment* (FAS 123(R) or the Statement). FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement.

The Statement is effective at the beginning of the first quarter of 2006 for the Company. As of the effective date, the Company will apply the Statement using a modified version of prospective application. Under that transition method, compensation cost will be recognized for (1) all awards granted after the required effective date and to awards modified, cancelled, or repurchased after that date and (2) the portion of awards granted subsequent to the completion of the Company s initial public offering (IPO) and prior to the effective date for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated for pro forma disclosures under FAS 123(R).

The impact of this Statement on the Company in 2006 and beyond will depend upon various factors, among them being the Company s future compensation strategy. The pro forma compensation costs presented in these and prior financial statements of the Company have been calculated using a minimum value method and may not be indicative of amounts which should be expected in future periods.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 6. Loans

The composition of the Company s loan portfolio as of September 30, 2005 and December 31, 2004 is as follows:

	September 30, 2005	December 31, 2004
	(dollars in thousands)	
Commercial and industrial	**$ 125,148**	$ 59,820
Real estate:		
Commercial	**184,173**	148,411
Residential	**30,283**	24,097
Construction and land development, including raw land of approximately $55,671 for 2005 and $50,157 for 2004	**295,790**	167,154
Consumer and other	**3,391**	3,788
	638,785	403,270
Less:		
Allowance for loan losses	**7,774**	6,133
Net unearned loan fees and discounts	**3,437**	2,126
	$ 627,574	$ 395,011

Impaired and non-accrual loans were $1,570,000 and $1,189,000 as of September 30, 2005, and $916,000 and $966,000 as of December 31, 2004, respectively. Net charge-offs were $108,000 and $164,000 for the nine months ended September 30, 2005 and 2004, respectively. For the three months ended September 30, 2005 and 2004, net charge-offs (recoveries) were $(48,000) and $216,000, respectively.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 7. Commitments and Contingencies

Financial instruments with off-balance-sheet risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized in the balance sheets.

The Company s exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for these commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract amount of the Company s exposure to off-balance-sheet risk as of September 30, 2005 and December 31, 2004 is as follows:

	September 30, 2005	**December 31, 2004**
	(dollars in thousands)	
Commitments to extend credit, including unsecured commitments of $28,401 for 2005 and $17,136 for 2004	**$ 212,464**	$ 126,550
Credit card commitments, including unsecured amounts of $1,633 for 2005 and $1,441 for 2004	**1,645**	1,471
Standby letters of credit, including unsecured commitments of $230 for 2005 and $1,122 for 2004	**3,124**	1,583
	$ 217,233	$ 129,604

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties. As of September 30, 2005 the Company has approximately $436,000 reflected in other liabilities for off-balance sheet risk associated with commitments to extend credit.

Standby letters of credit 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 public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required as the Company deems necessary. Essentially all letters of credit issued have expiration dates within one year. Upon entering into letters of credit, the Company records the related liability at fair value pursuant to FASB Interpretation 45 (FIN 45). Thereafter, the liability is evaluated pursuant to FASB Statement No. 5 *Accounting for Contingencies*. As of September 30, 2005 the amount of the liability related to guarantees was approximately $11,000.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 7. Commitments and Contingencies (continued)

In connection with standby letters of credit, the Company recognizes the related commitment fee received from the third party as a liability at the inception of the guarantee arrangement pursuant to FIN 45. Commitment fees, where the likelihood of exercise of the commitment is remote, are generally recognized as service fee income on a straight line basis over the commitment period. All other commitment fees are deferred over the entire commitment period and are not recognized as service fee income until the expiration of the commitment period.

Financial instruments with concentrations of credit risk

The Company makes commercial, commercial real estate, residential real estate and consumer loans to customers primarily in southern Nevada. At September 30, 2005, real estate loans accounted for approximately 80% of total loans. Substantially all of these loans are secured by first liens with an initial loan-to-value ratio of generally not more than 75%. The Company s policy for requiring collateral is to obtain collateral whenever it is available or desirable, depending upon the degree of risk that the Company is willing to take. In addition, approximately 5% of total loans are unsecured. The Company s loans are expected to be repaid from cash flow or from proceeds from the sale of selected assets of the borrowers.

A substantial portion of the Company s customers ability to honor their contracts is dependent on the economy in the area.

Lease Commitments

During March of 2005, the Company entered into a month-to-month sublease agreement for its San Diego loan production office. This is an operating lease with an unrelated third party with an initial base rent of $1,400 per month. The lease may be terminated by either party, with not less than thirty days prior written notice.

In June of 2005, the Company entered into a lease agreement for its Phoenix loan production office. This is an operating lease with an unrelated third party with an initial base rent of approximately $1,200 per month. The lease agreement ends on December 31, 2005.

Also in June of 2005, a sixth office was opened at the intersection of Russell Road and Interstate 215 in southwest Las Vegas. The office is leased space for an additional branch, human resources, operations support, internal audit and the real estate lending department. This is an operating lease with an unrelated third party with an initial base rent of approximately $38,000 per month beginning in October 2005. For each year following, the rent will be increased by approximately 2%. The lease expires on October 31, 2015.

As a result of the merger with Commerce, the Company acquired three new branches, of which two are leased spaces. The Sunset branch has approximately 6,000 square feet located in Henderson, NV. This is an operating lease with an unrelated third party with a base rent of $9,533 per month, as of the date of the merger. For each year following, the rent increases based on the cost of living increase for the preceding period based on the average for the United States set forth in the Consumer Price Index for Urban Wage Earners and Clerical Workers for all Items, published by the Bureau of Labor Statistics of the United States Department of Labor (CPI). The lease expires on July 31, 2011.

The Decatur office has 4,814 square feet, located on Decatur Boulevard near Hacienda Avenue in southwest Las Vegas. This is an operating lease with an unrelated third party with a base rent of $12,083 per month, as of the date of the merger. For each year following, the rent increases based on the cost of living increase for the preceding period based on the average CPI. The lease expires on March 31, 2018.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 8. Stock Options and Stock Appreciation Rights

Stock options

In July 2005, the Company granted 55,000 nonqualified stock options and 140,000 incentive stock options with an exercise price equal to the market value of the underlying stock on the grant date of $31.55. The nonqualified stock options vest immediately, and the incentive stock options vest 20% each year over five years. All options expire ten years from the grant date.

Stock appreciation rights

The Company accounts for stock appreciation rights (SAR) pursuant to FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.* The expense related to the Company s SAR plan was approximately $439,000 and $174,000 for the nine months ended September 30, 2005 and 2004, respectively. For the three months ended September 30, 2005 and 2004, the expense related to the SAR plan was $90,000 and $44,000, respectively. The total amount in accrued expenses was $350,000 as of September 30, 2005.

In July 2005, approximately $2,500,000 in accrued stock appreciation rights was paid.

There were no grants of stock appreciation rights relating to the SAR plan during the nine months ended September 30, 2005.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 9. Borrowed Funds

The Company has entered into an agreement under which it can obtain advances from the Federal Home Loan Bank (FHLB). The interest rate charged on advances is determined by the FHLB at the time of the advances. Advances are collateralized by a blanket lien on all loans secured by real estate and all business loans. The agreement can be terminated by the FHLB at any time.

Short-term advances from the FHLB were $16,000,000 and $0 at September 30, 2005 and December 31, 2004, respectively. There were two advances outstanding as of September 30, 2005, one for $15,000,000, with a fixed interest rate of 4.04%, and a maturity date of August 31, 2006, and the other for $1,000,000,with a fixed interest rate of 3.12%, and a maturity date of July 28, 2006. Long-term debt from the FHLB was $3,500,000 and $0 at September 30, 2005 and December 31, 2004, respectively. The long-term debt at September 30, 2005 consisted of one note, with a fixed interest rate of 3.49%, and a maturity of January 10, 2007.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 10. Issuance of Trust Preferred Securities

On September 23, 2005, the Company completed a private placement of $20,619,000 of trust preferred securities (the Securities) through Community Bancorp (NV) Statutory Trust II (the Trust), a statutory trust formed by the Company for that purpose. The proceeds from the sale of the Securities were used by the Trust to purchase $20,619,000 in aggregate principal amount from the Company s fixed/floating rate junior deferrable interest debentures (the Debentures) due in 2035.

The Debentures bear interest at a fixed rate of 5.94% for the first seven years, after which the rate will reset quarterly at the three-month LIBOR rate plus 1.37% per annum, and are redeemable, in whole or in part, without penalty, at the option of the Company after seven years. The interest payments on the Debentures made by the Company will be used to pay the quarterly distributions payable by the Trust to the holders of the Securities.

If the Company elects to defer payments of interest on the Securities by extending the interest distribution period, then the Company may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of the Company s capital stock, until such time as all deferred interest is paid.

The proceeds from this offering will provide the capital necessary to continue to grow organically and fund market opportunities. The $20.6 million is included in junior subordinated debt on the consolidated balance sheet of the Company.

Community Bancorp and Subsidiary

Notes to Unaudited Consolidated Financial Statements

Note 11. Quarterly Data (Unaudited)

	(dollars in thousands, except per share data)						
	2005			2004			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest and dividend income	$ 12,561	$ 9,676	$ 8,706	$ 8,171	$ 7,553	$ 7,255	$ 7,059
Interest expense	3,326	2,306	2,176	1,815	1,681	1,744	1,622
Net interest income	9,235	7,370	6,530	6,356	5,872	5,511	5,437
Provision for loan losses	725	91		340	360		222
Net interest income, after provision for loan losses	8,510	7,279	6,530	6,016	5,512	5,511	5,215
Noninterest income	677	419	376	392	378	350	369
Noninterest expenses (1)	5,421	4,641	3,423	5,424	3,671	3,429	3,422
Income before income taxes	3,766	3,057	3,483	984	2,219	2,432	2,162
Provision for income taxes	1,080	1,037	1,101	141	714	808	713
Net income	$ 2,686	$ 2,020	$ 2,382	$ 843	$ 1,505	$ 1,624	$ 1,449
Earnings per common share:							
Basic	$ 0.38	$ 0.30	$ 0.35	$ 0.16	$ 0.32	$ 0.35	$ 0.31
Diluted	$ 0.38	$ 0.29	$ 0.35	$ 0.16	$ 0.31	$ 0.34	$ 0.31

(1) Fourth quarter of 2004 includes approximately $1.9 million of expense relating to stock appreciation rights. See Note 9 of the Annual Report.

Item 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2004, including the audited financial statements contained therein, filed with the Securities and Exchange Commission. *Unless the context requires otherwise, the terms Company, us, we, and our refers to Community Bancorp on a consolidated basis.*

FORWARD-LOOKING INFORMATION

Certain statements contained in this document, including, without limitation, statements containing the words believes , anticipates , intends , expects , should , and words of similar import, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions in those areas in which we operate, demographic changes, competition, fluctuations in interest rates, changes in business strategy or development plans, changes in governmental regulation, credit quality, the availability of capital to fund the expansion of our business, and other factors referenced in this Report and other filings with the SEC. We disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

EXECUTIVE OVERVIEW

Community Bancorp (the Company) (NASDAQ: CBON), is a Las Vegas-based community bank holding company for Community Bank of Nevada with $842.6 million in total assets.

Our results for third quarter 2005 were impacted by the acquisition of Bank of Commerce, a Henderson-based bank, which, on August 26, 2005, had $145.5 million in tangible assets, $104.1 million in loans and $118.2 million in deposits. Also, the acquisition added three branches to the Company, as well as the addition of one organically.

The Company reported improved financial results driven by the ongoing economic strength in its market area. Net income for the third quarter of 2005 was up 78.5% to $2.7 million compared to $1.5 million for the comparable quarter last year. The asset sensitivity of the balance sheet, loan and deposit growth, and a 20.6% increase in the net interest margin for the quarter were all factors contributing to the growth in earnings.

Non-interest income for the third quarter of 2005 was up 79.1% to $677 thousand compared to the comparable quarter of 2004. This increase consisted of $176 thousand from service charges and other income, $31 thousand in the cash surrender value of bank owned life insurance purchased in July 2004, and an increase in loan brokerage and referral fees of $56 thousand.

Non-interest expense for the third quarter of 2005 increased by 47.7% or $1.8 million to $5.4 million compared to the same quarter in 2004. Expense increases were primarily attributed to increases in salary and employee benefits, increased occupancy costs, an increase in advertising and public relations, increased professional fees and core deposit intangible amortization.

Loans increased a total of $167.7 million in the third quarter of 2005, with $104.1 million contributed as a result of the acquisition of Bank of Commerce. The organic loan growth was primarily in construction and commercial loans. With the hiring of eight new lenders in 2005, we have been able to produce a significant amount of lending opportunities, as represented by third quarter results.

Deposits increased 34.7% during the third quarter of 2005, to $679.1, and were up 42.6% year-to-date compared to the deposit balance of $476.3 million at year end 2004. The merger with Bank of Commerce contributed $118.2 million, or 58.3%, of the growth since year end.

COMMUNITY BANCORP

Selected Consolidated Financial Highlights

	(In thousands, except share data and ratios; Unaudited)					
	Three Months Ended September 30,		%	Nine Months Ended September 30		%
	2005	2004	Change	2005	2004	Change
Income Statement Data						
Interest and dividend income	**12,561**	7,553	66.30%	**30,943**	21,867	41.51%
Interest expense	**3,326**	1,681	97.86%	**7,808**		