

CALIFORNIA INDEPENDENT BANCORP  
Form 10-Q  
August 12, 2002

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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, 2002

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 **0-265520**

**California Independent Bancorp**

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction of  
incorporation or organization)

**68-0349947**

(IRS Employer Identification No.)

**1227 Bridge St., Suite C, Yuba City, California 95991**

(Address of principal executive offices)

(Zip Code)

**(530) 674-6025**

(Registrant's telephone number, including area code)

**N/A**

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

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.

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2002
Common stock, no par value	2,117,373 shares

This report contains 27 pages. The Exhibit Index is on pages 25 - 26.

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**PART I Financial Information****ITEM 1. FINANCIAL STATEMENTS****CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

As of June 30, 2002, December 31, 2001, and June 30, 2001

(dollars in thousands)

(UNAUDITED)

	June 30, 2002	December 31, 2001	June 30, 2001
<b>Assets</b>			
Cash and Due From Banks	\$ 15,217	\$ 17,747	\$ 14,818
Federal Funds Sold		5,300	9,703
	<u>15,217</u>	<u>23,047</u>	<u>24,521</u>
Cash and Cash Equivalents	15,217	23,047	24,521
<b>Investment Securities:</b>			
Held-to-Maturity Securities, at amortized cost (fair value of \$2,520, \$3,698, and \$3,975, respectively)	2,435	3,604	3,906
Available-for-Sale Securities, at fair value	95,102	74,753	62,756
	<u>97,537</u>	<u>78,357</u>	<u>66,662</u>
Total Investment Securities	97,537	78,357	66,662
Loans and Leases	201,059	192,281	185,445
Less: Allowance for Loan and Lease Losses	(5,817)	(5,498)	(5,023)
	<u>195,242</u>	<u>186,783</u>	<u>180,422</u>
Net Loans and Leases	195,242	186,783	180,422
Premises and Equipment, Net	6,911	6,937	6,900
Interest Receivable	2,286	2,091	2,272
Other Real Estate Owned	698	542	580
Cash Surrender Value of Insurance Policies	5,231	5,108	4,988
Other Assets	2,278	3,140	3,121
Net Assets From Discontinued Operations		163	188
	<u>325,400</u>	<u>306,168</u>	<u>289,654</u>
Total Assets	\$ 325,400	\$ 306,168	\$ 289,654
<b>Liabilities and Shareholders' Equity</b>			
<b>Deposits:</b>			
Noninterest-Bearing	\$ 58,773	\$ 69,968	\$ 60,061
Interest-Bearing	212,685	205,608	197,679
	<u>271,458</u>	<u>275,576</u>	<u>257,740</u>
Total Deposits	271,458	275,576	257,740

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	June 30, 2002	December 31, 2001	June 30, 2001
Interest Payable	1,053	1,247	1,435
Deferred Compensation Payable	1,326	935	772
Federal Agency and Other Borrowings	20,458	120	160
Other Liabilities	2,374	1,077	2,106
Net Liabilities From Discontinued Operations	62		
<b>Total Liabilities</b>	<b>296,731</b>	<b>278,955</b>	<b>262,213</b>
<b>Shareholders' Equity</b>			
Common Stock, No Par Value Authorized 20,000,000 shares Issued and outstanding 2,117,373 shares June 30, 2002, 2,115,419 shares December 31, 2001, and 2,008,966 shares June 30, 2001.	22,323	22,322	19,909
Retained Earnings	5,574	4,481	7,213
Debt Guarantee of ESOP	(120)	(120)	(160)
Accumulated Other Comprehensive Income	892	530	479
<b>Total Shareholders' Equity</b>	<b>28,669</b>	<b>27,213</b>	<b>27,441</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 325,400</b>	<b>\$ 306,168</b>	<b>\$ 289,654</b>

*The accompanying notes are an integral part of these unaudited consolidated financial statements*

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**CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**(dollars in thousands except share data)**

**(UNAUDITED)**

	Three months ended June 30, 2002	Three months ended June 30, 2001
<b>Interest Income:</b>		
Interest and Fees on Loans and Leases	\$ 3,857	\$ 4,322
<b>Interest on Investments</b>		
Taxable Interest Income	1,329	1,088
Nontaxable Interest Income	16	23
Interest on Federal Funds Sold and Other Interest Income	7	124
<b>Total Interest Income</b>	<b>5,209</b>	<b>5,557</b>
<b>Interest Expense:</b>		
Interest on Deposits	998	1,837
Interest on Other Borrowings	175	11

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	Three months ended June 30, 2002	Three months ended June 30, 2001
Total Interest Expense	1,173	1,848
Net Interest Income	4,036	3,709
Provision for Loan and Lease Losses	150	
Net Interest Income After Provision for Loan and Lease Losses	3,886	3,709
<b>Noninterest Income:</b>		
Service Charges on Deposit Accounts	398	279
Loan Servicing Fees	23	34
Brokered Loan Fees	34	54
Alternative Investment Fee Income	42	46
Cash Surrender Value of Life Insurance Policies	74	71
Other	27	27
Total Noninterest Income	598	511
<b>Noninterest Expense:</b>		
Salaries and Employee Benefits	1,859	1,758
Occupancy Expense	210	204
Furniture and Equipment Expense	319	274
Other Operating and Administrative Expense	835	853
Total Noninterest Expense	3,223	3,089
Income Before Provision for Income Taxes	1,261	1,131
Provision for Income Taxes	462	405
Net Income From Continuing Operations	799	726
Income from Discontinued Operations, net of tax effect	13	14
Net Income	\$ 812	\$ 740
<b>Share Data:</b>		
<b>Earnings Per Share:</b>		
Basic From Continuing Operations	\$ 0.38	\$ 0.34
Basic After Discontinuance of Subsidiary	0.38	0.35
Diluted From Continuing Operations	0.38	0.34
Diluted After Discontinuance of Subsidiary	0.38	0.34
Weighted Average Basic Shares	2,116,626	2,109,414
Weighted Average Diluted Shares	2,122,380	2,150,182

*The accompanying notes are an integral part of these unaudited consolidated financial statements*

## CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands except share data)

(UNAUDITED)

	Six months ended June 30, 2002	Six months ended June 30, 2001
<b>Interest Income:</b>		
Interest and Fees on Loans and Leases	\$ 7,530	\$ 8,609
<b>Interest on Investments</b>		
Taxable Interest Income	2,523	2,315
Nontaxable Interest Income	36	49
Interest on Federal Funds Sold and Other Interest Income	42	290
<b>Total Interest Income</b>	<b>10,131</b>	<b>11,263</b>
<b>Interest Expense:</b>		
Interest on Deposits	2,078	3,907
Interest on Other Borrowings	260	57
<b>Total Interest Expense</b>	<b>2,338</b>	<b>3,964</b>
Net Interest Income	7,793	7,299
Provision for Loan and Lease Losses	300	
Net Interest Income After Provision for Loan and Lease Losses	7,493	7,299
<b>Noninterest Income:</b>		
Service Charges on Deposit Accounts	698	531
Loan Servicing Fees	158	192
Brokered Loan Fees	61	66
Alternative Investment Fee Income	84	91
Cash Surrender Value of Life Insurance Policies	144	139
Loss on Sale of Available-for-Sale Security	(55)	
Other	74	93
<b>Total Noninterest Income</b>	<b>1,164</b>	<b>1,112</b>
<b>Noninterest Expense:</b>		
Salaries and Employee Benefits	3,635	3,629
Occupancy Expense	407	372
Furniture and Equipment Expense	637	556
Other Operating & Administrative Expense	1,576	1,720
<b>Total Noninterest Expense</b>	<b>6,255</b>	<b>6,277</b>
Income Before Provision for Income Taxes	2,402	2,134
Provision for Income Taxes	876	769

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	<u>Six months ended June 30, 2002</u>	<u>Six months ended June 30, 2001</u>
Net Income From Continuing Operations	1,526	1,365
Income from Discontinued Operations, net of tax effect	32	26
	<u>          </u>	<u>          </u>
Net Income	\$ 1,558	\$ 1,391
	<u>          </u>	<u>          </u>
<b>Share Data:</b>		
Earnings Per Share:		
Basic From Continuing Operations	\$ 0.72	\$ 0.65
Basic After Discontinuance of Subsidiary	0.74	0.66
Diluted From Continuing Operations	0.72	0.64
Diluted After Discontinuance of Subsidiary	0.73	0.65
	<u>          </u>	<u>          </u>
Weighted Average Basic Shares	2,116,026	2,109,414
Weighted Average Diluted Shares	2,127,798	2,138,626

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*The accompanying notes are an integral part of these unaudited consolidated financial statements*

**CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Six-month Periods ended June 30, 2002 and June 30, 2001**

**(dollars in thousands)**

**(UNAUDITED)**

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 1,558	\$ 1,391
Adjustments to Reconcile Net Income to Net Cash Provided by (Used For) Operating Activities:		
Depreciation and Amortization	485	433
Provision for Loan and Lease Losses	300	
Loss on Disposal of Investment Security	55	
Gain on Sale of Other Real Estate Owned		(14)
Gain on Sale of Loans and Leases, net	(6)	
(Gain) Loss on Sale of Premises and Equipment	(10)	22
(Increase) Decrease in Assets:		
Interest Receivable	(194)	568
Cash Surrender Value of Insurance Policies	(122)	(118)
Income Tax Receivable	500	(82)
Net Assets From Discontinued Operations	162	38
Other Assets	66	136
Increase (Decrease) in Liabilities:		
Interest Payable	(194)	(445)
Deferred Compensation Payable	390	141
Net Liabilities From Discontinued Operations	62	

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	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Other Liabilities	1,297	(3,268)
<b>Net Cash Provided By (Used For) Operating Activities</b>	<b>4,349</b>	<b>(1,198)</b>
<b>Cash Flows From Investing Activities</b>		
Net Increase in Loans and Leases	(8,910)	(7,410)
Purchase of Securities Available-for-Sale	(25,774)	(21,090)
Proceeds From Maturity of Securities Held-to-Maturity	350	1,345
Proceeds From Sales, Maturities and Calls of Securities Available-for-Sale	6,847	36,408
Proceeds From Sales of Other Real Estate Owned		117
Purchases of Premises and Equipment	(450)	(376)
<b>Net Cash (Used For) Provided By Investing Activities</b>	<b>(27,937)</b>	<b>8,994</b>
<b>Cash Flows From Financing Activities</b>		
Net Decrease in Noninterest Bearing Deposits	(11,195)	(3,935)
Net Increase (Decrease) in Interest Bearing Deposits	7,077	(5,957)
Net Increase in Other Borrowings	20,338	
Repurchase of Common Stock	(96)	
Stock Options Exercised	99	
Cash Dividends	(465)	(442)
<b>Net Cash Provided By (Used For) Financing Activities</b>	<b>15,758</b>	<b>(10,334)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(7,830)</b>	<b>(2,538)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>23,047</b>	<b>27,059</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>15,217</b>	<b>24,521</b>

*The accompanying notes are an integral part of these unaudited consolidated financial statements*

**CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of Management, the unaudited consolidated financial statements contain all adjustments (consisting solely of recurring adjustments) that are necessary to present fairly the financial position of California Independent Bancorp ("CIB") and its subsidiaries (collectively, the "Company") at June 30, 2002, December 31, 2001, and June 30, 2001, the results of its operations for the three and six-month periods ended June 30, 2002 and June 30, 2001, and cash flows for the six-month period ended June 30, 2002 and June 30, 2001.

Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with SEC rules or regulations. The results of operations for the three and six-month periods ended June 30, 2002 are not necessarily indicative of the operating results for the full year ending December 31, 2002. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.



**Note 2 Principles of Consolidation**

The accompanying financial statements include the accounts of CIB and its wholly owned subsidiary, Feather River State Bank ("Bank") and its wholly owned subsidiary, E.P.I. Leasing Co., Inc. ("EPI"), whose operations have been discontinued and are in the process of being wound-down. Significant intercompany balances and transactions have been eliminated in consolidation.

**Note 3 Commitments and Contingent Liabilities**

In the normal course of business there are various outstanding commitments and contingent liabilities, such as commitments to extend credit and letters of credit that are not reflected in the financial statements. Management does not anticipate any material loss as a result of these transactions.

The contract amount of commitments not reflected on the balance sheet at June 30, 2002 were as follows:

Loan Commitments	\$	54,420,000
Standby Letters of Credit	\$	520,000

**Note 4 Cash and Stock Dividends**

In February, May, August, and November of 2001, and February and May of 2002, CIB paid an eleven-cent per share cash dividend.

On August 25, 2001, CIB's Board of Directors authorized and declared a five percent (5%) stock dividend for shareholders of record as of September 10, 2001. The dividend was distributed on September 25, 2001, and resulted in the issuance of 99,957 additional shares of common stock.

**Note 5 Earnings Per Share**

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to the common shareholders by the weighted average number of common shares outstanding for the

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period. Diluted EPS reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock that then shared in the earnings of the Company. Basic and diluted EPS are restated for the effect of stock dividends.

**Note 6 Comprehensive Income**

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The statement requires an entity to report and display comprehensive income and its components. For the Company, comprehensive income includes net income and changes in the fair value, net of applicable taxes, of its Available-for-Sale investment securities. Total comprehensive income for the three and six months ended June 30, 2002 and June 30, 2001 was \$1,504,000 and \$955,000, respectively, and \$1,920,000 and \$2,113,000, respectively, as shown in the following table.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net Income	\$ 812	\$ 740	\$ 1,558	\$ 1,391
Other Comprehensive Income:				
Gain (Loss) on Available-for-Sale investment securities, net of taxes	692	215	362	722
Total Comprehensive Income	\$ 1,504	\$ 955	\$ 1,920	\$ 2,113

**Note 7 Financial Accounting Pronouncements**

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In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). These Statements change the method of accounting for business combinations and goodwill in two significant ways. First, SFAS No. 141 prohibits the use of the pooling of interests method and requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. Second, SFAS No. 142 changes the accounting method for goodwill from an amortization method to an impairment-only approach. As a result, goodwill will be accounted for as an asset unless it declines in value. Companies will be required to test their goodwill valuation periodically for "impairment" or loss and to recognize any change on their books. The amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS No. 142, which for companies with calendar year ends, was January 1, 2002. The Company adopted SFAS No. 141 and SFAS No. 142. Management believes that these Statements did not have a material impact on the Company's financial position or results of operations.

### **Note 8 Reclassifications**

Certain reclassifications have been made to amounts previously reported to conform with current presentation methods.

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

California Independent Bancorp ("CIB"), through its wholly owned subsidiary Feather River State Bank ("Bank"), engages in a broad range of financial service activities. The Bank commenced operations in 1977 as a California state chartered commercial bank. CIB was formed in 1994 and became the holding company for the Bank in May 1995 after receiving regulatory and shareholder approval. In October 1996, the Bank acquired E.P.I. Leasing Co. Inc., ("EPI") and has operated it as a subsidiary. Consistent with the Bank's decision in the first quarter of 2000 to discontinue originating and purchasing leases through EPI, it is anticipated that the business affairs of EPI will be dissolved following the orderly wind-down of the remaining lease portfolio.

Certain statements in this Form 10-Q quarterly report, and in Management's Discussion and Analysis of Financial Condition and Results of Operations (excluding statements of fact or historical financial information), involve forward-looking information 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, and are subject to the "safe harbor" created by those sections. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the following factors: competitive pressure in the banking industry increases significantly; changes in the interest rate environment reduce margins; general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality and an increase in the provision for possible loan and lease losses; loss of key personnel; change in the regulatory environment; changes in business conditions; volatility of rate sensitive deposits; operational risks including data processing system failures or fraud; asset and liability matching risks and liquidity risks; changes in the securities markets; the impact of the California energy shortage; and the effects of terrorism, including the events of September 11, 2001 and thereafter, and the conduct of the war on terrorism by the United States and its allies.

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to CIB's and the Bank's (collectively, the "Company's") financial condition, operating results, asset and liability management, liquidity and capital resources; and should be read in conjunction with the Consolidated Financial Statements of the Company and its accompanying notes.

### **OVERVIEW OF CHANGES IN THE FINANCIAL STATEMENTS**

Total assets at June 30, 2002 were \$325,400,000. This figure represents an increase of 6.3% over \$306,168,000, at December 31, 2001, and an increase of 12.3% over \$289,654,000, at June 30, 2001.

Gross loans and leases were \$201,059,000 at June 30, 2002, an increase of 4.6% from \$192,281,000, at December 31, 2001, and an 8.4% increase from \$185,445,000, at June 30, 2001. The increase in loans over the past twelve-month period is attributable to the Bank's successful business development efforts. The Bank has recommitted itself in promoting a productive sales culture that emphasizes relationship banking.

The Company's investment portfolio at June 30, 2002 was \$97,537,000, compared to \$78,357,000 at December 31, 2001, and \$66,662,000 at June 30, 2001. Increases in the Company's investment portfolio during the first six months of 2002 were in large part due to a change in investment strategy, whereby the Company invested its excess funds in qualified Available-for-Sale Securities rather than federal funds sold and

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the adoption of a leveraged investment strategy whereby qualified securities were purchased utilizing borrowed funds. Cash and cash equivalents, which consisted of cash and due from banks and federal funds sold, were \$15,217,000 at June 30, 2002, \$23,047,000 at December 31, 2001, and \$24,521,000 at June 30, 2001.