

CALIFORNIA INDEPENDENT BANCORP
Form 10-Q
August 14, 2003

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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, 2003

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No **APPLICABLE ONLY TO CORPORATE ISSUERS:**

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, 2003
Common stock, no par value	2,073,911 shares
This report contains 29 pages. The Exhibit Index is on pages 28.	

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PART I Financial Information**ITEM 1. FINANCIAL STATEMENTS**

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2003, December 31, 2002, and June 30, 2002
(Dollars in thousands except share data)
(UNAUDITED)

	June 30, 2003	December 31, 2002	June 30, 2002
Assets			
Cash and Due From Banks	\$ 15,486	\$ 21,801	\$ 15,217
Federal Funds Sold		18,245	
	15,486	40,046	15,217
Cash and Cash Equivalents	15,486	40,046	15,217
Investment Securities Held-to-Maturity	2,440	2,265	2,435
Investment Securities Available-for-Sale	137,140	97,974	94,016
	139,580	100,239	96,451
Total Investments	\$ 139,580	\$ 100,239	\$ 96,451
Loans and Leases	205,208	214,428	201,059
Less: Allowance for Loan and Lease Losses	(5,963)	(6,532)	(5,817)
	199,245	207,896	195,242
Net Loans and Leases	\$ 199,245	\$ 207,896	\$ 195,242
Premises and Equipment, Net	6,550	6,731	6,911
Other Real Estate	2,729		698
Cash Surrender Value of Insurance Policies	6,364	6,239	5,231
Other Assets	7,598	5,932	5,650
	377,552	367,083	325,400
Total Assets	\$ 377,552	\$ 367,083	\$ 325,400

Liabilities and Shareholders' Equity

Deposits:

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	June 30, 2003	December 31, 2002	June 30, 2002
Noninterest-Bearing	\$ 70,943	\$ 75,381	\$ 58,773
Interest-Bearing	239,767	231,345	212,685
	<u> </u>	<u> </u>	<u> </u>
Total Deposits	\$ 310,710	\$ 306,726	\$ 271,458
Federal Home Loan Bank Borrowings	22,370	15,000	15,000
Other Borrowings	80	80	5,458
Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust	10,000	10,000	
Other Liabilities	6,378	6,221	4,815
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	\$ 349,538	\$ 338,027	\$ 296,731
	<u> </u>	<u> </u>	<u> </u>

Commitments and Contingencies

Shareholders' Equity:

Common Stock, No Par Value Shares Authorized 20,000,000, Shares Issued and Outstanding 2,073,911 at June 30, 2003, 2,152,751 at December 31, 2002, and 2,223,241 at June 30, 2002

	\$ 20,325	\$ 22,600	\$ 22,323
Retained Earnings	6,978	5,589	5,574
Debt Guarantee of ESOP	(80)	(80)	(120)
Accumulated Other Comprehensive Income	791	947	892
	<u> </u>	<u> </u>	<u> </u>
Total Shareholders' Equity	\$ 28,014	\$ 29,056	\$ 28,669
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Shareholders' Equity	\$ 377,552	\$ 367,083	\$ 325,400
	<u> </u>	<u> </u>	<u> </u>

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except share data)
(UNAUDITED)

	Three months ended June 30, 2003	Three months ended June 30, 2002
Interest Income		
Interest and Fees on Loans and Leases	\$ 3,810	\$ 3,772
Interest on Investments		
Taxable Interest Income	1,144	1,329
Nontaxable Interest Income	27	16
Interest on Federal Funds Sold	29	7
	<u> </u>	<u> </u>
Total Interest Income	5,010	5,124
	<u> </u>	<u> </u>

Interest Expense

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	Three months ended June 30, 2003	Three months ended June 30, 2002
Interest on Deposits	1,079	998
Interest on Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust	120	
Interest on Borrowed Funds	168	175
Total Interest Expense	1,367	1,173
Net Interest Income	3,643	3,951
Provision for Loan and Lease Losses		150
Net Interest Income After Provision for Loan and Lease Losses	3,643	3,801
Noninterest Income		
Service Charges on Deposit Accounts	414	398
Brokered Loan Fees	64	34
Loan Servicing Fees	25	23
Other	94	165
Total Noninterest Income	597	620
Noninterest Expense		
Salaries and Employee Benefits	1,673	1,774
Occupancy Expense	217	210
Furniture and Equipment Expense	325	319
Other	777	835
Total Noninterest Expense	2,992	3,138
Income Before Provision for Income Taxes	1,248	1,283
Provision for Income Taxes	430	471
Net Income	\$ 818	\$ 812
Per Share Amounts		
Basic Earnings Per Share	\$ 0.39	\$ 0.37
Diluted Earnings Per Share	\$ 0.37	\$ 0.36
Basic Weighted Average Shares Outstanding	2,111,160	2,222,457
Diluted Weighted Average Shares Outstanding	2,193,550	2,228,499

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except share data)
(UNAUDITED)

	Six months ended June 30, 2003	Six months ended June 30, 2002
Interest Income		
Interest and Fees on Loans and Leases	\$ 7,841	\$ 7,347
Interest on Investments		
Taxable Interest Income	2,365	2,523
Nontaxable Interest Income	44	36
Interest on Federal Funds Sold	100	42
Total Interest Income	10,350	9,948
Interest Expense		
Interest on Deposits	2,188	2,078
Interest on Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust	245	
Interest on Borrowed Funds	330	260
Total Interest Expense	2,763	2,338
Net Interest Income	7,587	7,610
Provision for Loan and Lease Losses	10	300
Net Interest Income After Provision for Loan and Lease Losses	7,577	7,310
Noninterest Income		
Service Charges on Deposit Accounts	704	698
Brokered Loan Fees	128	61
Loan Servicing Fees	133	158
Loss on Disposal of Available-for-Sale Security		(55)
Gain on Sale of Other Real Estate	108	
Other	343	357
Total Noninterest Income	1,416	1,219
Noninterest Expense		
Salaries and Employee Benefits	3,393	3,452
Occupancy Expense	427	407
Furniture and Equipment Expense	634	637
Other	1,558	1,576

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	Six months ended June 30, 2003	Six months ended June 30, 2002
Total Noninterest Expense	6,012	6,072
Income Before Provision for Income Taxes	2,981	2,457
Provision for Income Taxes	1,057	899
Net Income	\$ 1,924	\$ 1,558
Per Share Amounts		
Basic Earnings Per Share	\$ 0.90	\$ 0.70
Diluted Earnings Per Share	\$ 0.87	\$ 0.70
Basic Weighted Average Shares Outstanding	2,129,514	2,221,827
Diluted Weighted Average Shares Outstanding	2,206,814	2,234,188

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

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CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six-month Periods Ended June 30, 2003 and June 30, 2002
(Dollars in thousands)
(UNAUDITED)

	June 30, 2003	June 30, 2002
Cash Flows From Operating Activities		
Net Income	\$ 1,924	\$ 1,558
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	507	485
Provision for Loan and Lease Losses	10	300
Loss on Disposal of Investment Securities		55
Gain on Sale of Other Real Estate, Net	(108)	
Gain on Sale of Loans and Leases, Net		(6)
Gain on Sale of Premises and Equipment		(10)
(Increase) Decrease in Other Assets	(1,751)	412
(Decrease) Increase in Other Liabilities	(700)	1,555
Net Cash (Used For) Provided By Operating Activities	\$ (118)	\$ 4,349
Cash Flows From Investing Activities		
Net Decrease (Increase) in Loans and Leases	6,858	(8,910)

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	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Purchases of Securities Available-for-Sale	(73,378)	(25,774)
Purchases of Securities Held-to-Maturity	(1,175)	
Proceeds From Maturity of Securities Held-to-Maturity	1,000	350
Proceeds From Sales, Maturities and Calls of Securities Available-for-Sale	33,927	6,847
Proceeds From Sales of Other Real Estate	108	
Purchases of Premises and Equipment	(326)	(450)
	<u> </u>	<u> </u>
Net Cash Used for Investing Activities	\$ (32,986)	\$ (27,937)
Cash Flows From Financing Activities		
Net Decrease in Noninterest-Bearing Deposits	(4,436)	(11,195)
Net Increase in Interest-Bearing Deposits	8,421	7,077
Net Increase in Borrowed Funds	7,370	20,338
Repurchase of Common Stock	(2,361)	(96)
Cash Dividends	(535)	(465)
Stock Options Exercised	85	99
	<u> </u>	<u> </u>
Net Cash Provided by Financing Activities	\$ 8,544	\$ 15,758
	<u> </u>	<u> </u>
Net Decrease in Cash and Cash Equivalents	\$ (24,560)	\$ (7,830)
	<u> </u>	<u> </u>
Cash and Cash Equivalents, Beginning of Year	\$ 40,046	\$ 23,047
	<u> </u>	<u> </u>
Cash and Cash Equivalents, End of Period	\$ 15,486	\$ 15,217
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these 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 accounting principles generally accepted in the United States of America and 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, 2003, December 31, 2002, and June 30, 2002, the results of its operations for the three and six-month periods ended June 30, 2003 and June 30, 2002, and cash flows for the six-month periods ended June 30, 2003 and June 30, 2002.

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, 2003 are not necessarily indicative of the operating results for the full year ending December 31, 2003. These financial statements should 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, 2002.

Note 2 Principles of Consolidation

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The consolidated financial statements include the accounts of CIB and its wholly owned subsidiaries, Feather River State Bank, E.P.I. Leasing Company, Inc., and CIB Capital Trust. Significant intercompany transactions and balances 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, 2003 and June 30, 2002 were as follows:

(Dollars in thousands)	June 30, 2003	June 30, 2002
Loan Commitments	\$ 46,502	\$ 54,420
Standby Letters of Credit	860	520

Note 4 *Cash and Stock Dividends*

In February, May, August, and November of 2002, CIB paid an eleven-cent (\$0.11) per share cash dividend and in February and May of 2003, CIB paid a twelve and one-half cent (\$0.125) per share cash dividend.

On August 20, 2002, CIB's Board of Directors authorized and declared a five percent (5%) stock dividend for shareholders of record as of September 5, 2002. The dividend was distributed on September 20, 2002, and resulted in the issuance of 105,405 additional shares of common stock.

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Note 5 *Stock-Based Compensation*

At June 30, 2003, the Company had three stock-based compensation plans: the Feather River State Bank 1989 Amended and Restated Stock Option Plan, the California Independent Bancorp 1996 Stock Option Plan, and the California Independent Bancorp 2000 Stock Option Plan (the "Plans"). The Company accounts for the Plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting period. The following tables illustrate the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation.

(Dollars in thousands, except share data)	For the three-months ended,	
	June 30, 2003	June 30, 2002
Net Income, As Reported	\$ 818	\$ 812
Deduct Total Stock-Based Employee Compensation Expense Determined Under the Fair Value Based Method for all Awards, Net of Related Tax Effects	(42)	(41)
Pro Forma Net Income	\$ 776	\$ 771

Basic Earnings Per Share:

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	For the three-months ended,	
	June 30, 2003	June 30, 2002
As Reported	\$ 0.39	\$ 0.37
Pro Forma	\$ 0.37	\$ 0.35
Diluted Earnings Per Share:		
As Reported	\$ 0.37	\$ 0.36
Pro Forma	\$ 0.35	\$ 0.35
For the six-months ended,		
(Dollars in thousands, except share data)		
Net Income, As Reported	\$ 1,924	\$ 1,558
Deduct Total Stock-Based Employee Compensation Expense Determined Under the Fair Value Based Method for all Awards, Net of Related Tax Effects	(82)	(125)
Pro Forma Net Income	\$ 1,842	\$ 1,433
Basic Earnings Per Share:		
As Reported	\$ 0.90	\$ 0.70
Pro Forma	\$ 0.86	\$ 0.64
Diluted Earnings Per Share:		
As Reported	\$ 0.87	\$ 0.70
Pro Forma	\$ 0.83	\$ 0.64

As required, the pro forma disclosures above include options granted since January 1, 1995. Consequently, the effects of applying FASB Statement No. 123 for providing pro forma disclosures may

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not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures.

The fair value of each option granted during the periods indicated was estimated on the date of grant using an option-pricing model with the following assumptions:

	Three-months ended, June 30, 2002	
	June 30, 2003	June 30, 2002
Weighted Average Fair Value of Options Granted	\$ 9.29	\$ 6.46
Dividend Yield	1.70%	2.21%
Expected Volatility	32.65%	30.24%
Risk-Free Interest Rate		4.55%
Expected Option Life		7.50 Years

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For the six months ended,

	<hr/>	
Risk-Free Interest Rate	3.54%	4.55%
Expected Option Life		