CALIFORNIA INDEPENDENT BANCORP
Form 10-Q
May 11, 2001

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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 March 31, 2001

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	**68-0349947**
(State or other jurisdiction of incorporation or organization)	(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 /x/ 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 March 31, 2001
Common stock, no par value	2,008,966 shares

This report contains 28 pages. The Exhibit Index is on page 20.

PART I FINANCIAL INFORMATION

PART I Financial Information

ITEM 1. FINANCIAL STATEMENTS

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2001, December 31, 2000, and March 31, 2000
(dollars in thousands)
(UNAUDITED)

	March 31, 2001	December 31, 2000	March 31, 2000
Assets			
Cash and Due From Banks	$ 11,642	$ 19,359	$ 10,740
Federal Funds Sold	17,400	7,700	19,200
Cash and Cash Equivalents	29,042	27,059	29,940
Investment securities:			
Held-to-Maturity Securities, at amortized cost (fair value of $4,377, $5,322 and $15,854 respectively)	4,317	5,317	15,942
Available-for-Sale Securities, at fair value	67,237	76,695	82,266
Total Investments	71,554	82,012	98,208
Loans and Leases	156,895	158,681	112,767
Loans and Leases Held-for-Sale	19,417	20,334	42,396
Gross Loans and Leases	176,312	179,015	155,163
Less: Allowance for Loan and Lease Losses	(5,372)	(5,725)	(6,789)
Net Loans and Leases	170,940	173,290	148,374
Premises and Equipment, Net	6,612	6,979	7,177
Interest Receivable	2,117	2,840	3,073
Other Real Estate Owned	302	405	1,076
Cash Surrender Value of Insurance Policies	4,928	4,870	4,703
Deferred Taxes	1,753	2,168	3,622
Income Tax Receivable	126	89	
Other Assets	1,458	1,509	430
Net Assets From Discontinued Operations	191	226	
Total Assets	$ 289,023	$ 301,447	$ 296,603
Liabilities and Shareholders' Equity			
Deposits:			
Noninterest-Bearing	$ 54,928	$ 63,996	$ 51,707
Interest-Bearing	203,999	203,636	218,064
Total Deposits	258,927	267,632	269,771

	March 31, 2001	December 31, 2000	March 31, 2000
Interest Payable	1,717	1,880	1,560
Accrued Compensation Payable	699	631	465
Federal Agency and Other Borrowings		4,160	
Other Liabilities	973	1,374	1,089
Net Liabilities From Discontinued Operations			109
Total Liabilities	262,316	275,677	272,994
Shareholders' Equity			
Common stock, no par value Authorized 20,000,000			
Issued and outstanding 2,008,966 shares March 31, 2001, 2,008,966 shares December 31, 2000 and 1,905,065 March 31, 2000	19,909	19,909	17,954
Retained Earnings	6,694	6,264	6,704
Debt Guarantee of ESOP	(160)	(160)	
Accumulated Other Comprehensive Income (Loss)	264	(243)	(1,049)
Total Shareholders' Equity	26,707	25,770	23,609
Total Liabilities and Shareholders' Equity	$ 289,023	$ 301,447	$ 296,603

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Periods ended March 31, 2001 and March 31, 2000
(dollars in thousands except per share amounts)
(UNAUDITED)

	Three months ended March 31, 2001	Three months ended March 31, 2000
Interest Income:		
Interest and Fees on Loans and Leases	$ 4,287	$ 3,869
Interest on Investments		
Taxable Interest Income	1,227	1,373
Nontaxable Interest Income	26	34
Interest on Federal Funds Sold and Other Interest Income	166	408
Total Interest Income	5,706	5,684
Interest Expense:		
Interest on Deposits	2,070	2,236
Interest on Other Borrowings	46	7
Total Interest Expense	2,116	2,243

	Three months ended March 31, 2001		Three months ended March 31, 2000
Net Interest Income	3,590		3,441
Provision for Loan and Lease Losses			150
Net Interest Income After Provision for Loan and Lease Losses	3,590		3,291
Noninterest Income:			
Service Charges on Deposit Accounts	252		250
Loan Servicing Fees	158		191
Brokered Loan Fees	12		28
Alternative Investment Fee Income	45		51
Cash Surrender Value of Life Insurance Policies	68		64
Other	66		106
Total Noninterest Income	601		690
Noninterest Expense:			
Salaries and Employee Benefits	1,871		1,536
Occupancy Expense	168		170
Furniture and Equipment Expense	282		301
Telephone Expense	92		78
Other Operating and Administrative Expense	775		823
Total Noninterest Expense	3,188		2,908
Income Before Provision for Income Taxes	1,003		1,073
Provision for Income Taxes	364		396
Net Income From Continuing Operations	639		677
Income on Discontinued Operations, net of tax effect	12		3
Net Income	$ 651		$ 680
Share Data:			
Earnings Per Share:			
Basic From Continuing Operations	$ 0.32		$ 0.34
Basic After Discontinuance of Subsidiary	0.32		0.34
Diluted From Continuing Operations	0.32		0.34
Diluted After Discontinuance of Subsidiary	0.32		0.34
Weighted Average Basic Shares	2,008,966		2,000,042
Weighted Average Diluted Shares	2,025,112		2,012,024

Basic and diluted earnings per share, and the weighted average shares, have been adjusted for the three months ended March 31, 2000 to reflect the 5% stock dividend distributed on September 15, 2000.

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Periods ended March 31, 2001 and March 31, 2000
(dollars in thousands)
(UNAUDITED)

	March 31, 2001	March 31, 2000
Cash Flows From Operating Activities		
Net Income	$ 651	$ 680
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	219	251
Provision for Loan and Lease Losses		150
Purchases of Loans and Leases Held-for-Sale	(327)	
Originations of Loans and Leases Held-for-Sale		(466)
(Gain) on Sale of Other Real Estate Owned	(14)	
Gain on Sale of Premises and Equipment	(8)	(13)
(Increase) Decrease in Assets:		
Interest Receivable	723	210
Deferred Taxes	(1)	28
Cash Surrender Value of Insurance Policies	(58)	(54)
Income Tax Receivable	(37)	358
Net Assets From Discontinued Operations	35	
Other Assets	40	(86)
Increase (Decrease) in Liabilities:		
Interest Payable	(163)	26
Deferred Compensation Payable	68	121
Net Liabilities From Discontinued Operations		(3)
Other Liabilities	(4,561)	(588)
Net Cash Provided By (Used For) Operating Activities	(3,433)	614
Cash Flows From Investing Activities		
Net (Increase) Decrease in Loans and Leases	2,677	6,492
Purchase of Securities Available-for-Sale	(8,270)	(11,832)
Proceeds From Maturity of Securities Held-to-Maturity	1,000	350
Proceeds From Sales, Maturities and Calls Securities Available-for-Sale	18,662	172
Proceeds From Sales of Other Real Estate Owned	117	223
Purchases of Premises and Equipment	156	(72)
Net Cash Provided By (Used For) Investing Activities	14,342	(4,667)
Cash Flows From Financing Activities		
Net (Decrease) in Noninterest Bearing Deposits	(9,068)	(8,776)
Net Increase (Decrease) in Interest Bearing Deposits	363	5,088
Cash Dividends	(221)	(210)
Stock Options Exercised		4
Net Cash (Used For) Financing Activities	(8,926)	(3,894)

	March 31, 2001	March 31, 2000
NET INCREASE (DECREASE)	1,983	(7,947)
Cash and Cash Equivalents, Beginning of Year	27,059	37,887
Cash and Cash Equivalents, End of Period	29,042	29,940

The accompanying notes are an integral part of these 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 that are necessary to present fairly the financial position of California Independent Bancorp ("CIB") and its subsidiaries (collectively, the "Company") at March 31, 2001, December 31, 2000, and March 31, 2000, and the results of its operations for the three-month periods ended March 31, 2001, and March 31, 2000.

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 periods ended March 31, 2001, are not necessarily indicative of the operating results for the full year ending December 31, 2001. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Company's Annual Report for the year ended December 31, 2000.

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 Company, Inc. ("EPI"), whose operations have been discontinued. Significant intercompany balances and transactions have been eliminated in consolidation.

Note 3 Loans to Directors

In the ordinary course of business, the Bank makes loans to directors of the Company. Loans to directors amounted to approximately $2,591,000, $3,165,000, and $3,552,000 at March 31, 2001, December 31, 2000, and March 31, 2000, respectively.

Note 4 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, which are not reflected in the financial statements. Management does not anticipate any material loss as a result of these transactions.

Note 5 Cash and Stock Dividends

In March, June, August, and November of 2000, and February of 2001, CIB paid an eleven-cent per share cash dividend.

On August 15, 2000, CIB's Board of Directors authorized and declared a five-percent (5%) stock dividend for shareholders of record as of August 31, 2000. The dividend was distributed on September 15, 2000, and resulted in the issuance of 94,881 additional shares of common stock.

Note 6 Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". SFAS No. 128 establishes standards for computing and presenting EPS. It replaced the presentation of primary EPS with a presentation of basic EPS. It also required dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and required reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

Basic 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 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.

Note 7 Financial Accounting Pronouncements

On January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for the reporting and displaying of comprehensive income and its components in the financial statements. Comprehensive income refers to revenues, expenses, gains, and losses that generally accepted accounting principles recognize as changes in value to an enterprise but are excluded from net income.

For the Company, comprehensive income includes net income and changes in the fair value of its available-for-sale investment securities. Total comprehensive income for the three-months ended March 31, 2001 and March 31, 2000 was $915,000 and ($369,000), respectively.

On January 1, 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This statement establishes standards for reporting enterprise segments of a company in the footnotes to the financial statements. The Company has no segments that meet the requirements of a reportable segment according to the guidelines set forth in SFAS 131.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires recognition of all derivatives as either assets or liabilities in the statement of financial condition and the measurement of those instruments at fair value. Recognition of changes in fair value will be recognized into income or as a component of other comprehensive income depending upon the type of the derivative and its related hedge, if any. As issued, SFAS No. 133 was to be effective for the Company beginning January 1, 2000. However, in July 2000, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133," extending the effective date to fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", to provide guidance in the implementation of certain issues related to SFAS No. 133. Upon implementation at January 1, 2001, there was no material impact on the Company's financial statements.

In September of 2000, the FASB issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125" ("SFAS No. 140"). This statement replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 revises the standard for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS's No. 125's provisions without reconsideration. The Company has adopted the disclosure provisions related to the securitization of financial assets. All transactions entered into after the first quarter of 2001 will be accounted for in accordance with SFAS No. 140. This adoption does not have a material impact on the Company.

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 (the "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, after receiving regulatory and shareholder approval, became the holding company for the Bank in May 1995. In October 1996, the Bank acquired E.P.I. Leasing Co., ("EPI"), and has operated it as a subsidiary. As a part of CIB and the Banks' restructuring efforts, it is anticipated that the business affairs of EPI will be dissolved and wound up during the year 2001.

Certain statements in this Form 10Q 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; the 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; and the costs of steps necessary to address the residual effects, if any, of Year 2000 issues.

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") financial condition, operating results, asset and liability management, and 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 March 31, 2001 were $289,023,000. This figure represents a decrease from $301,447,000 at December 31, 2000, and $296,603,000 at March 31, 2000.

Gross loans and leases were $176,312,000 at March 31, 2001, a slight decrease from $179,015,000 at December 31, 2000, and a 13.6% increase from $155,163,000 at March 31, 2000. The increase in loans over the past twelve-month period is attributable to successful business development efforts and the Bank's strategic decision to further diversify its overall loan portfolio via growth primarily in the commercial and real estate portfolio's.

The Company's investment portfolio at March 31, 2001 was $71,554,000, compared to $82,012,000 at December 31, 2000, and $98,208,000 at March 31, 2000. Cash and cash equivalents, which consisted of cash and due from banks and federal funds sold, were $29,042,000 at March 31, 2001, $27,059,000 at December 31, 2000, and $29,940,000 at March 31, 2000.

Total deposits of the Company remain strong at $258,927,000, $267,632,000, and $269,771,000 at March 31, 2001, December 31, 2000, and March 31, 2000, respectively.

The ratio of gross loans to deposits was 68.1%, 66.9%, and 57.5% at March 31, 2001, December 31, 2000, and March 31, 2000, respectively.

LOANS AND LEASES

The Company continues to emphasize real estate, commercial, agricultural, and consumer lending. Beginning in 2000, and continuing forward, the Company pro-actively intensified its focus on real-estate secured lending to further diversify the portfolio, improve asset quality, and meet customers needs in its served geographic market segments. The Company lends primarily to small and medium sized businesses, small to large sized farmers, and consumers. The Company's market area is comprised principally of Sutter, Yuba, Colusa, and Yolo counties; and, secondarily, Placer, Sacramento, El Dorado, Butte, and Glenn counties.

Due to the loan and lease portfolio's composition, the Company sustains moderate variations in outstanding loan totals. More specifically, certain seasonal variations are expected to occur in the agricultural and construction loan portfolios. The table below sets forth the composition of the Company's loan and lease portfolio as of March 31, 2001, December 31, 2000, and March 31, 2000.

COMPOSITION OF LOAN AND LEASE PORTFOLIO
(dollars in thousands)

Loan Category	March 31, 2001	December 31, 2000	March 31, 2000
Commercial	$ 22,851	$ 21,043	$ 15,726
Agricultural	19,703	20,648	27,325

Loan Category		March 31, 2001		December 31, 2000		March 31, 2000
Real Estate Construction		33,889		35,783		32,842
Real Estate Mortgage		75,873		75,627		50,666
Leases		17,451		19,609		25,745
Consumer		4,919		4,472		2,728
Other		1,626		1,833		131
Total	$	176,312	$	179,015	$	155,163

The principal changes in the loan and lease portfolio between March 31, 2000, December 31, 2000, and March 31, 2001 are discussed below:

Commercial loans continue to show consistent growth. At March 31, 2001, commercial loans increased $1,808,000, or 8.6%, over December 31, 2000, and $7,125,000, or 45.3%, over March 31, 2000. The increase is attributed to a strategically focused marketing effort in this area.

At March 31, 2001, agricultural loans declined $945,000, or 4.6%, from December 31, 2000, and 7,622,000, or 27.9%, from March 31, 2000. Three principal factors contributed to these declines. First, the Bank closed its Madera Loan Production office during the fourth quarter of 1999. As a result, most of the agricultural loan borrowers serviced from this office have left the Bank. Second, the Bank successfully collected a substantial number of troubled agricultural loans during 2000. And third, increased agricultural lending competition in the Bank's core market area.

A modest increase of $1,047,000, or 3.2%, occurred in real estate construction loans between March 31, 2000 and March 31, 2001. The Bank remains committed to providing construction loans, primarily to builders of single family homes.

The Bank realized substantial growth in its real estate mortgage loan portfolio. Mortgage loans secured by commercial, residential, and agricultural real estate increased $25,207,000, or 49.8%, from March 31, 2000 to March 31, 2001. The increase is primarily the result of successful business development efforts and the Bank's strategic decision to further diversify its overall loan portfolio via growth in the real estate secured lending sector.

Lease financing receivables declined $8,294,000, or 32.2%, between March 31, 2000 and March 31, 2001. This decline is the direct result of the Bank's decision in the first quarter of 2000 to discontinue originating and purchasing leases through EPI. Consequently, the reduction of the Bank's lease portfolio was primarily due to scheduled lease portfolio amortization.

The Company makes consumer loans, including secured loans and lines of credit, to finance a variety of consumer needs. Consumer loans increased $2,191,000, or 80.3%, between March 31, 2000 and March 31, 2001. The increase in this loan category was due to the Bank's enhanced focus on retail banking products.

During the first quarter of 2001, there were no significant changes in the Bank's loan management, lending philosophy, or credit delivery procedures. The Company continues to emphasize high credit quality and superior customer service as two key components of its strategic direction.

LOAN AND LEASE QUALITY

The Company places loans and leases on nonaccrual status when either principal or interest has been past due for 90 days or more. Exceptions to this policy can be made if the loan or lease is well secured and in the process of collection. The Company also places loans and leases on nonaccrual when payment in full of principal or interest is not expected, or the financial condition of the borrower has significantly deteriorated. At the time that a loan or lease is placed on nonaccrual, any accrued but uncollected interest is reversed, and additional income is recorded on a cash basis as payments are received. However, loans and leases that are in the process of renewal in the normal course of business, or are well secured and in the process of collection, may not be placed on nonaccrual status, at the discretion of management. A nonaccrual loan or lease may be restored to an accrual basis when interest and principal payments are current and the prospects for future payments are no longer in doubt.

The table below summarizes the composition of non-performing loans and leases that consists of "Accruing Loans and Leases Past Due 90 Days or More" and "Nonaccrual Loans and Leases" as of March 31, 2001, December 31, 2000, and March 31, 2000, as well as the changes between the periods.

Composition of Nonperforming Loans and Leases

	March 31, 2001	**% Change From March 31, 2000 To March 31, 2001**	**December 31, 2000**	**% Change From March 31, 2000 To December 31, 2000**	**March 31, 2000**
Accruing loans and leases past due 90 days or more					
Commercial	$		$		$
Agricultural					1,643
Real Estate					1,076
Leases					
Consumer					
Total	$		$		$ 2,719
Nonaccrual Loans and Leases					
Commercial	$ 1,936	84.7%	$ 2,059	96.5%	$ 1,048
Agricultural	2,374	(50.0)%	2,613	(44.9)%	4,745
Real Estate	1,068	(7.2)%	253	(78.0)%	1,151
Leases		(100.0)%		(100.0)%	31
Consumer	5				
Total	$ 5,383	(22.8)%	$ 4,925	(29.4)%	$ 6,975

	March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000
Total Nonperforming Loans and Leases	$ 5,383	(44.5)%	$ 4,925		

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. See Note D for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Payment of Benefits

Benefits are recorded when paid.

Plan Expenses

Expenses for participant loans are paid by the Plan by reducing balances of those participants initiating the transaction. All other expenses incurred in the administration of the Plan are first offset against forfeitures, if any, with any remaining balances paid by the Company at its discretion or by the Plan.

Use of Estimates

The preparation of the Plan's financial statements in conformity with the modified cash basis of accounting requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Risks and Uncertainties

The Plan provides investment options which may invest in any combination of stocks, bonds, fixed income securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for plan benefits.

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

CHEMTURA CORPORATION EMPLOYEE SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS

Reclassification

Certain 2009 amounts have been reclassified to conform with the presentation in the 2010 financial statements.

C. INVESTMENTS:

The following represents the Plan's investments as of December 31, 2010 or 2009 that represented 5% or more of the net assets available for plan benefits:

	2010	2009
Columbia Acorn Fund	$ 17,400,649*	$ 14,035,902
Fidelity Managed Income Portfolio II	57,663,434*	62,278,045*
Dodge & Cox Stock Fund	30,967,449*	28,431,035*
Dodge & Cox Income Fund	17,436,995*	16,722,939*
Fidelity Growth Company Fund	41,516,498*	39,420,730*
Fidelity Diversified International Fund	18,137,574*	19,178,065*
Spartan 500 Index Fund	31,479,732*	30,422,351*

* Represents 5% or more of net assets available for plan benefits.

During the year ended December 31, 2010, the investments held by the Plan (including investments bought, sold and held during the year) appreciated (depreciated) in value as follows:

	2010
Chemtura Corporation common stock	$ (2,946,600)

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

Mutual funds	28,058,906
Total net appreciation in fair value	$ 25,112,306

D. FAIR VALUE MEASUREMENTS:

Accounting standards establish a framework for measuring fair value. That framework sets forth a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

CHEMTURA CORPORATION EMPLOYEE SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS

Level 2 - Inputs to the valuation methodology that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

Level 3 - Inputs to the valuation methodology that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used by the Plan. There have been no changes in the methodologies used at December 31, 2010 and 2009.

Common collective trust – Valued at net asset value based on information reported by the trustee with reference to the market value of the trust's underlying assets at year end. The common collective trust is audited annually.

Mutual funds – Valued at the net asset value of the shares held by the Plan at year end as determined by quoted market prices.

Company stock – Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

CHEMTURA CORPORATION EMPLOYEE SAVINGS PLAN
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The following tables set forth by level and by investment class, within the fair value hierarchy, the Plan's assets at fair value as of December 31:

	2010			
Description	Total	Level 1	Level 2	Level 3
Common collective trust:				
Stable value	$57,663,434	$-	$57,663,434	$-
Mutual funds:				
Foreign large blend	2,392,748	2,392,748	-	-
Foreign large growth	18,137,574	18,137,574	-	-
Intermediate bond	29,760,289	29,760,289	-	-
Small blend	8,972,147	8,972,147	-	-
Mid-cap blend	15,287,562	15,287,562	-	-
Large blend	72,996,230	72,996,230	-	-
Mid-cap growth	17,400,649	17,400,649	-	-
Large value	38,369,609	38,369,609	-	-
Retirement income	1,473,172	1,473,172	-	-
Target date	44,445,725	44,445,725	-	-
Total mutual funds	249,235,705	249,235,705	-	-
Company stock	2,183,971	2,183,971	-	-
Total	$309,083,110	$251,419,676	$57,663,434	$-

	2009			
Description	Total	Level 1	Level 2	Level 3

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

Common collective trust:				
Stable value	$62,278,045	$-	$62,278,045	$-
Mutual funds:				
Foreign large blend	2,665,643	2,665,643	-	-
Foreign large growth	19,178,065	19,178,065	-	-
Intermediate bond	26,580,162	26,580,162	-	-
Small blend	6,035,268	6,035,268	-	-
Mid-cap blend	13,938,305	13,938,305	-	-
Large blend	69,843,081	69,843,081	-	-
Mid-cap growth	14,035,902	14,035,902	-	-
Large value	34,678,578	34,678,578	-	-
Retirement income	1,929,355	1,929,355	-	-
Target date	39,146,550	39,146,550	-	-
Total mutual funds	228,030,909	228,030,909	-	-
Company stock	8,677,339	8,677,339	-	-
Total	$298,986,293	$236,708,248	$62,278,045	$-

The common collective trust held by the Plan is a stable value investment which has an objective to preserve capital and to provide a competitive level of income over time that is consistent with the preservation of capital. To achieve this objective the fund invests in fixed-income securities, bond funds and money market funds. Twelve months notice is required for a complete liquidation, however the trustee, at their discretion, may waive the twelve month waiting period. Participant directed redemptions are allowed daily with no restrictions. There are no unfunded commitments.

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

CHEMTURA CORPORATION EMPLOYEE SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS

E. TAX STATUS:

The Internal Revenue Service ("IRS") has determined and informed the Company by a letter dated April 16, 2003 that the Plan and related trust are designed in accordance with applicable sections of the IRC. Although the Plan has been amended since receiving the determination letter, the plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

Accounting standards require recording uncertain income tax positions that exist in the Plan's financial statements. Plan management has determined there are no uncertain tax positions and believes there is no adjustment or disclosure required in the Plan's financial statements. The Plan did not recognize any interest and penalty expense for the year ended December 31, 2010. The Form 5500 remains subject to examination by the IRS for the years ended December 31, 2007 through December 31, 2010.

F. PARTIES-IN-INTEREST:

Section 3(14) of ERISA defines a party-in-interest to include, among others, fiduciaries or employees of the Plan, any person who provides services to the Plan or an employer whose employees are covered by the Plan. Accordingly, loans to participants and the management of investments held by the trustee are considered party-in-interest transactions.

G. PLAN TERMINATION:

Although the Plan was established with the intention that it will continue indefinitely, the Company retains the right to discontinue its contributions at any time or to terminate the Plan, subject to the provisions of ERISA.

H. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500:

The following is a reconciliation of net assets available for plan benefits on the financial statements to the Form 5500 for the years ended December 31, 2010 and 2009:

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

	2010	2009
Net assets available for plan benefits on the financial statements	$ 313,852,220	$ 307,925,117
Less: Adjustment from fair value to contract value for interest in common collective trusts relating to fully benefit responsive investment contracts	569,387	(782,467)
Net assets available for plan benefits on the Form 5500	$ 314,421,607	$ 307,142,650

March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

CHEMTURA CORPORATION EMPLOYEE SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS

The following is a reconciliation of net appreciation on the financial statements to the Form 5500 for the year ended December 31, 2010:

Net appreciation on the financial statements	$25,112,306
Adjustment from fair value to contract value for interest in common collective trusts relating to fully benefit responsive investment contracts for the years ended:	
December 31, 2010	569,387
December 31, 2009	782,467
Net appreciation on the Form 5500	$26,464,160

I. SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through the date these financial statements were issued.

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March 31, 2001	% Change From March 31, 2000 To March 31, 2001	December 31, 2000	% Change From March 31, 2000 To December 31, 2000	March 31, 2000

CHEMTURA CORPORATION EMPLOYEE SAVINGS PLAN
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Plan Number: 034

SCHEDULE H, Line 4(i) – SCHEDULE OF ASSETS (HELD AT END OF YEAR)

December 31, 2010

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Cost	(e) Current value
*	Fidelity Managed Income Portfolio II	Common collective trust	**	$57,663,434
	Columbia Acorn Fund	Mutual fund	**	17,400,649
	Dodge & Cox Income Fund	"	**	17,436,995
	Dodge & Cox Stock Fund	"	**	30,967,449
	Vanguard Total Bond Market Fund	"	**	12,323,294
	Vanguard Small Cap Index Fund	"	**	3,849,833
	Vanguard Wellesley Fund	"	**	7,402,160
	RS Partners Fund	"	**	5,122,314
*	Fidelity Low Priced Stock Fund	"	**	11,909,166
*	Fidelity Diversified International Fund	"	**	18,137,574
*	Fidelity Growth Company Fund	"	**	41,516,498
*	Fidelity Freedom Income Fund	"	**	1,473,172
*	Fidelity Freedom K 2000 Fund	"	**	355,962
*	Fidelity Freedom K 2005 Fund	"	**	226,530
*	Fidelity Freedom K 2010 Fund	"	**	11,966,229
*	Fidelity Freedom K 2015 Fund	"	**	4,415,613
*	Fidelity Freedom K 2020 Fund	"	**	11,184,839
*	Fidelity Freedom K 2025 Fund	"	**	4,796,007
*	Fidelity Freedom K 2030 Fund	"	**	4,359,148
*	Fidelity Freedom K 2035 Fund	"	**	3,051,167
*	Fidelity Freedom K 2040 Fund	"	**	2,793,052
*	Fidelity Freedom K 2045 Fund	"	**	526,602
*	Fidelity Freedom K 2050 Fund	"	**	770,576

March 31, 2001	% Change From March 31, 2000 To March 31, 2001		December 31, 2000		% Change From March 31, 2000 To December 31, 2000	March 31, 2000
		*	Spartan Extended Market Index Fund	"	**	3,378,396
		*	Spartan International Index Fund	"	**	2,392,748
		*	Spartan 500 Index Fund	"	**	31,479,732
			Total mutual funds			249,235,705
		*	Chemtura Corporation common stock	Common stock	**	2,183,971
			Total investments on the statement of net assets available for plan benefits			309,083,110
		*	Participant loans	(4.25%-10.5%)	-	5,275,514
			Total investments on the Form 5500			$314,358,624

* Represents a party-in-interest to the Plan.
** Cost omitted for participant directed investments.

See accompanying report of independent registered public accounting firm.