

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

BANCORP RHODE ISLAND INC  
Form 10-Q  
August 04, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-Q

Quarterly Report Under Section 13 of the Securities Exchange Act of 1934

For quarter ended: June 30, 2004

Commission File No. 001-16101

BANCORP RHODE ISLAND, INC.

-----  
(Exact Name of Registrant as Specified in Its Charter)

RHODE ISLAND

05-0509802

-----  
(State or Other Jurisdiction  
of Incorporation or Organization)

-----  
(IRS Employer  
Identification No.)

ONE TURKS HEAD PLACE, PROVIDENCE, RI 02903

-----  
(Address of Principal Executive Offices)

(401) 456-5000

-----  
(Issuer's Telephone Number, Including Area Code)

Not Applicable

-----  
(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 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 the number of shares outstanding of each of the Registrant's classes of common stock, as of August 1, 2004:

Common Stock - Par Value \$0.01

3,987,703 shares

-----  
(class)

-----  
(outstanding)

# Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

BANCORP RHODE ISLAND, INC.

FORM 10-Q

INDEX

	PAGE NUMBER	
	-----	
Cover Page	1	
Index	2	
PART I - FINANCIAL INFORMATION		
Item 1	Financial Statements	
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Changes in Shareholders' Equity	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7 - 9
Item 2	Management's Discussion and Analysis	10 - 25
Item 3	Quantitative and Qualitative Disclosures About Market Risk	26 - 27
Item 4	Controls and Procedures	27
PART II - OTHER INFORMATION		
Item 1	Legal Proceedings	28
Item 2	Changes in Securities	28
Item 3	Defaults upon Senior Securities	28
Item 4	Submission of Matters to a Vote of Security Holders	28
Item 5	Other Information	29
Item 6	Exhibits and Reports on Form 8-K	29
	Signature Page	30

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

### BANCORP RHODE ISLAND, INC. Consolidated Balance Sheets

	June 30, 2004	December 31, 2003
	-----	-----
	(In thousands)	
<b>ASSETS:</b>		
Cash and due from banks	\$ 26,711	\$ 27,084
Overnight investments	16,007	733
	-----	-----
Total cash and cash equivalents	42,718	27,817
Investment securities available for sale (amortized cost of \$115,629 and \$96,828, respectively)	115,157	98,595
Mortgage-backed securities available for sale (amortized cost of \$153,414 and \$106,028, respectively)	150,933	106,618
Stock in Federal Home Loan Bank of Boston	11,145	9,554
Loans receivable:		
Commercial loans	370,224	332,266
Residential mortgage loans	329,131	366,230
Consumer and other loans	140,644	115,786
	-----	-----
Total loans	839,999	814,282
Less allowance for loan losses	(11,475)	(11,078)
	-----	-----
Net loans	828,524	803,204
Premises and equipment, net	13,031	12,457
Goodwill	10,766	10,766
Accrued interest receivable	5,637	5,597
Investment in bank-owned life insurance	15,811	15,491
Prepaid expenses and other assets	6,228	3,872
	-----	-----
Total assets	\$1,199,950	\$1,093,971
	=====	=====
<b>LIABILITIES:</b>		
Deposits:		
Demand deposit accounts	\$ 179,608	\$ 159,916
NOW accounts	132,520	129,398
Money market accounts	16,624	16,937
Savings accounts	335,285	292,277
Certificate of deposit accounts	223,786	212,755
	-----	-----
Total deposits	887,823	811,283
Overnight and short-term borrowings	16,380	13,460
Federal Home Loan Bank of Boston borrowings	198,788	176,759
Subordinated deferrable interest debentures	18,558	13,403
Other liabilities	5,741	6,959
	-----	-----
Total liabilities	1,127,290	1,021,864
	-----	-----
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, par value \$0.01 per share, authorized 1,000,000 shares:		

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Issued and outstanding: none	--	--
Common stock, par value \$0.01 per share, authorized 11,000,000 shares:		
Issued and outstanding 3,970,003 shares and 3,891,190 shares, respectively	40	39
Additional paid-in capital	42,450	41,439
Retained earnings	32,120	29,074
Accumulated other comprehensive income, net	(1,950)	1,555
	-----	-----
Total shareholders' equity	72,660	72,107
	-----	-----
Total liabilities and shareholders' equity	\$1,199,950	\$1,093,971
	=====	=====

See accompanying notes to consolidated financial statements

3

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Operations

	Three Months Ended June 30,		
	2004	2003	2002
	----	----	----
	(In thousands, except per share amounts)		
Interest and dividend income:			
Commercial loans	\$ 5,670	\$ 4,830	\$
Residential mortgage loans	4,242	4,323	
Consumer and other loans	1,552	1,336	
Mortgage-backed securities	1,211	1,332	
Investment securities	1,019	992	
Overnight investments	42	45	
Federal Home Loan Bank of Boston stock dividends	61	67	
	-----	-----	-----
Total interest and dividend income	13,797	12,925	
	-----	-----	-----
Interest expense:			
NOW accounts	312	344	
Money market accounts	50	24	
Savings accounts	889	1,066	
Certificate of deposit accounts	1,371	1,520	
Overnight and short-term borrowings	31	38	
Federal Home Loan Bank of Boston borrowings	1,772	1,799	
Subordinated deferrable interest debentures	261	--	
Company-obligated mandatorily redeemable capital securities	--	140	
	-----	-----	-----
Total interest expense	4,686	4,931	
	-----	-----	-----
Net interest income	9,111	7,994	
Provision for loan losses	200	400	
	-----	-----	-----

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Net interest income after provision for loan losses	8,911	7,594	
	-----	-----	-----
Noninterest income:			
Service charges on deposit accounts	1,206	1,043	
Commissions on nondeposit investment products	268	232	
Income from bank-owned life insurance	154	205	
Loan related fees	96	339	
Commissions on loans originated for others	23	94	
Gain on sale of investment securities	144	279	
Gain on sale of mortgage-backed securities	--	--	
Other income	315	202	
	-----	-----	-----
Total noninterest income	2,206	2,394	
	-----	-----	-----
Noninterest expense:			
Salaries and employee benefits	4,129	3,746	
Occupancy	652	587	
Equipment	402	377	
Data processing	722	801	
Marketing	420	298	
Professional services	357	385	
Loan servicing	253	210	
Loan workout and other real estate owned expense	48	(14)	
Other expenses	997	955	
	-----	-----	-----
Total noninterest expense	7,980	7,345	
	-----	-----	-----
Income before income taxes	3,137	2,643	
Income tax expense	1,042	881	
	-----	-----	-----
Net income	\$ 2,095	\$ 1,762	\$
	=====	=====	=====
Per share data:			
Basic earnings per common share	\$ 0.53	\$ 0.47	\$
Diluted earnings per common share	\$ 0.50	\$ 0.43	\$
Average common shares outstanding - basic	3,966,526	3,787,881	3,9
Average common shares outstanding - diluted	4,214,017	4,053,902	4,2

See accompanying notes to consolidated financial statements

4

### BANCORP RHODE ISLAND, INC. Consolidated Statements of Changes in Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income, Net	T
Six months ended June 30,	-----	-----	-----	-----	-----
			(In thousands)		

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

2003

----

Balance at December 31, 2002	\$38	\$40,134	\$24,002	\$ 2,253	\$6
Net income	--	--	3,434	--	--
Other comprehensive income, net of tax:					
Unrealized holding gain on securities available for sale, net of taxes of \$305				567	
Reclassification adjustment, net of taxes of \$153				(284)	
Comprehensive income					
Exercise of stock options	--	134	--	--	
Exercise of stock warrants	--	100	--	--	
Common stock issued for incentive stock award, net	--	17	--	--	
Dividends on common stock	--	--	(1,061)	--	
	---	-----	-----	-----	---
Balance at June 30, 2003	\$38	\$40,385	\$26,375	\$ 2,536	\$6
	===	=====	=====	=====	==

2004

----

Balance at December 31, 2003	\$39	\$41,439	\$29,074	\$ 1,555	\$7
Net income	--	--	4,159	--	--
Other comprehensive income, net of tax:					
Unrealized holding losses on securities available for sale, net of taxes of \$1,690				(3,280)	
Reclassification adjustment, net of taxes of \$116				(225)	
Comprehensive income					
Exercise of stock options	--	294	--	--	
Exercise of stock warrants	1	699	--	--	
Common stock issued for incentive stock award, net	--	18	--	--	
Dividends on common stock	--	--	(1,113)	--	
	---	-----	-----	-----	---
Balance at June 30, 2004	\$40	\$42,450	\$32,120	\$ (1,950)	\$7
	===	=====	=====	=====	==

See accompanying notes to consolidated financial statements

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

	Six Months End June 30,	
	2004	2003
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 4,159	\$
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,982	
Provision for loan losses	500	
Gain on sale of investment securities	(341)	
Gain on sale of mortgage-backed securities	--	
Gain on sale of other real estate owned	--	
Income from bank-owned life insurance	(319)	
Compensation expense from restricted stock grant	18	
(Increase) decrease in:		
Accrued interest receivable	(40)	
Prepaid expenses and other assets	(551)	
Increase (decrease) in:		
Other liabilities	(1,218)	
Other, net	10	
	-----	-----
Net cash provided (used) by operating activities	4,200	
	-----	-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(5,039)	(1)
Commercial loans	(50,361)	(5)
Consumer loans	(49,080)	(2)
Purchase of:		
Investment securities available for sale	(43,993)	(2)
Mortgage-backed securities available for sale	(74,545)	(5)
Residential mortgage loans	(27,445)	(11)
Federal Home Loan Bank of Boston stock	(1,591)	(
Principal payments on:		
Investment securities available for sale	21,000	3
Mortgage-backed securities available for sale	26,923	5
Residential mortgage loans	69,167	9
Commercial loans	12,423	1
Consumer loans	24,051	1
Proceeds from sale of investment securities	4,372	1
Proceeds from sale of mortgage-backed securities	--	2
Proceeds from sale of other real estate owned	--	
Capital expenditures for premises and equipment	(1,706)	(
	-----	-----
Net cash provided (used) by investing activities	(95,824)	(3)
	-----	-----
Cash flows from financing activities:		
Net increase in deposits	76,540	2
Net increase (decrease) in overnight and short-term borrowings	2,920	(1)
Proceeds from long-term borrowings	55,155	7
Repayment of long-term borrowings	(27,971)	(5)
Proceeds from issuance of common stock	994	
Dividends on common stock	(1,113)	(
	-----	-----
Net cash provided (used) by financing activities	106,525	3
	-----	-----

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	14,901	(
Cash and cash equivalents at beginning of period	27,817	4
	-----	---
Cash and cash equivalents at end of period	\$ 42,718	\$ 4
	=====	====
Supplementary Disclosures:		
Cash paid for interest	\$ 8,887	\$ 1
Cash paid for income taxes	2,840	
Non-cash transactions:		
Change in other comprehensive income, net of taxes	(3,505)	

See accompanying notes to consolidated financial statements

6

### BANCORP RHODE ISLAND, INC. Notes to Consolidated Financial Statements

#### (1) Basis of Presentation

Bancorp Rhode Island, Inc. (the "Company"), a Rhode Island corporation, was organized by Bank Rhode Island (the "Bank") to be a bank holding company and to acquire all of the capital stock of the Bank. The reorganization of the Bank into the holding company form of ownership was completed on September 1, 2000. The Company has no significant operating entities other than the Bank. For that reason, substantially all of the discussion in this Quarterly Report on Form 10-Q relates to the operations of the Bank and its subsidiaries.

Beginning December 31, 2003, the consolidated financial statements include the accounts of the Company and its wholly-owned direct subsidiary, the Bank, and its indirect subsidiaries, BRI Investment Corp. (a Rhode Island passive investment company), BRI Realty Corp. (a real estate holding company) and Acorn Insurance Agency, Inc. (a licensed insurance agency). The Company adopted Financial Accounting Standards Board ("FASB") Interpretation 46-R, "Consolidation of Variable Interest Entities - Revised" on December 31, 2003, and therefore has deconsolidated its statutory trust subsidiaries as of that date. The Consolidated Statement of Operations for the 2003 periods also includes the results of BRI Statutory Trusts I, II and III (issuers of trust preferred securities). All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim results of consolidated operations are not necessarily indicative of the results for any future interim period or for the entire year. These interim consolidated financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the annual consolidated financial statements and accompanying notes included in the Company's Annual Report to Shareholders filed with the Securities and Exchange Commission.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and goodwill valuation.



## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America ("GAAP") and prevailing practices within the banking industry and include all necessary adjustments (consisting of only normal recurring adjustments), that, in the opinion of management, are required for a fair presentation of the results and financial condition of the Company.

### (2) Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and resulted in the issuance of additional common stock that then shared in the earnings of the entity.

7

### (3) Stock Based Compensation

In December 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Companies are able to eliminate a "ramp-up" effect that the SFAS 123 transition rule creates in the year of adoption. Companies can choose to elect a method that will provide for comparability amongst years reported. In addition, this Statement amends the disclosure requirement of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the fair value based method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS 123 are effective for financial statements for fiscal years ending after December 15, 2002. The adoption of this Statement did not have a material impact on the Company's financial position or results of operations at adoption, but may have a material impact sometime in the future if the Company were to elect the alternative method for accounting for stock-based employee compensation.

On March 31, 2004, the FASB issued Exposure Draft "Share-Based Payment - An Amendment to FASB Statement No. 123 and 95." The Exposure Draft concluded that all companies should expense the fair value of employee stock options using the modified prospective grant-date measurement approach as defined in SFAS 123. Compensation cost would be recognized in the financial statements over the requisite service period. A final Statement is expected in the second half of 2004, which could become effective in 2005. Until a new Statement is issued, the provisions of SFAS 123 and SFAS 148 remain in effect.

The following table summarizes the differences between the fair value and intrinsic value methods of accounting for stock-based compensation:

Three Months Ended June 30,		Six Months Ended June	
-----		-----	
2004	2003	2004	2003

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

	----	----	----	----
Net income (in thousands):				
As reported	\$2,095	\$1,762	\$4,159	\$3,431
Compensation cost, net of taxes (1)	(187)	(72)	(241)	(91)
	-----	-----	-----	-----
Pro forma	\$1,908	\$1,690	\$3,918	\$3,339
	=====	=====	=====	=====
Earnings per common share:				
Basic:				
As reported	\$ 0.53	\$ 0.47	\$ 1.05	\$ 0.99
Compensation cost, net of taxes (1)	(0.05)	(0.02)	(0.06)	(0.01)
	-----	-----	-----	-----
Pro forma	\$ 0.48	\$ 0.45	\$ 0.99	\$ 0.88
	=====	=====	=====	=====
Diluted:				
As reported	\$ 0.50	\$ 0.43	\$ 0.99	\$ 0.88
Compensation cost, net of taxes (1)	(0.04)	(0.01)	(0.06)	(0.01)
	-----	-----	-----	-----
Pro forma	\$ 0.46	\$ 0.42	\$ 0.93	\$ 0.87
	=====	=====	=====	=====