

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

BANCORP RHODE ISLAND INC  
Form 10-Q  
May 13, 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: March 31, 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 by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of May 10, 2004:

Common Stock - Par Value \$0.01	3,972,028 shares
-----	-----
(class)	(outstanding)

BANCORP RHODE ISLAND, INC.

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

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 - 21
Item 3 Quantitative and Qualitative Disclosures About Market Risk	22 - 23
Item 4 Controls and Procedures	23
PART II - OTHER INFORMATION	
Item 1 Legal Proceedings	24
Item 2 Changes in Securities	24
Item 3 Default upon Senior Securities	24
Item 4 Submission of Matters to a Vote of Security Holders	24
Item 5 Other Information	24
Item 6 Exhibits and Reports on Form 8-K	24
Signature Page	25

2

BANCORP RHODE ISLAND, INC.  
Consolidated Balance Sheets

March 31,  
2004  
-----

December 31,  
2003  
-----

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

(In thousands)

ASSETS:

Cash and due from banks	\$ 27,789	\$ 27,084
Overnight investments	28,585	733
	-----	-----
Total cash and cash equivalents	56,374	27,817
Investment securities available for sale (amortized cost of \$95,705 and \$96,828 at March 31, 2004 and December 31, 2003, respectively)	98,010	98,595
Mortgage-backed securities available for sale (amortized cost of \$99,738 and \$106,028 at March 31, 2004 and December 31, 2003, respectively)	101,006	106,618
Stock in Federal Home Loan Bank of Boston	9,554	9,554
Loans receivable:		
Commercial loans	348,494	332,266
Residential mortgage loans	356,233	366,230
Consumer and other loans	122,050	115,786
	-----	-----
Total loans	826,777	814,282
Less allowance for loan losses	(11,296)	(11,078)
	-----	-----
Net loans	815,481	803,204
Premises and equipment, net	12,886	12,457
Goodwill	10,766	10,766
Accrued interest receivable	5,541	5,597
Investment in bank owned life insurance	15,657	15,491
Prepaid expenses and other assets	4,341	3,872
	-----	-----
Total assets	\$1,129,616	\$1,093,971
	=====	=====

LIABILITIES:

Deposits:		
Demand deposit accounts	\$ 169,212	\$ 159,916
NOW accounts	134,246	129,398
Money market accounts	17,059	16,937
Savings accounts	293,806	292,277
Certificate of deposit accounts	222,335	212,755
	-----	-----
Total deposits	836,658	811,283
Overnight and short-term borrowings	18,692	13,460
Federal Home Loan Bank of Boston borrowings	173,778	176,759
Subordinated deferrable interest debentures	18,558	13,403
Other liabilities	6,624	6,959
	-----	-----
Total liabilities	1,054,310	1,021,864
	-----	-----

SHAREHOLDERS' EQUITY:

Preferred stock, par value \$0.01 per share, authorized 1,000,000 shares:		
Issued and outstanding: none	--	--
Common stock, par value \$0.01 per share, authorized 11,000,000 shares:		
Issued and outstanding 3,971,153 shares and 3,891,190 shares, respectively	40	39
Additional paid-in capital	42,327	41,439
Retained earnings	30,581	29,074

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

Accumulated other comprehensive income, net	2,358	1,555
	-----	-----
Total shareholders' equity	75,306	72,107
	-----	-----
Total liabilities and shareholders' equity	\$1,129,616	\$1,093,971
	=====	=====

See accompanying notes to consolidated financial statements

3

### BANCORP RHODE ISLAND, INC. Consolidated Statements of Operations

	Three Months Ended March 31,	
	2004	2003
	-----	-----
(In thousands, except per share data)		
Interest and dividend income:		
Commercial loans	\$ 5,209	\$ 4,683
Residential mortgage loans	4,695	4,174
Consumer and other loans	1,429	1,289
Mortgage-backed securities	1,121	1,480
Investment securities	1,096	1,139
Overnight investments	23	39
Federal Home Loan Bank of Boston stock dividends	51	62
	-----	-----
Total interest and dividend income	13,624	12,866
	-----	-----
Interest expense:		
NOW accounts	377	326
Money market accounts	55	28
Savings accounts	849	1,148
Certificate of deposit accounts	1,394	1,600
Overnight and short-term borrowings	35	51
Federal Home Loan Bank of Boston borrowings	1,753	1,762
Subordinated deferrable interest debentures	219	--
Company-obligated mandatorily redeemable capital securities	--	137
	-----	-----
Total interest expense	4,682	5,052
	-----	-----
Net interest income	8,942	7,814
Provision for loan losses	300	400
	-----	-----
Net interest income after provision for loan losses	8,642	7,414
	-----	-----
Noninterest income:		
Service charges on deposit accounts	1,012	952
Commissions on nondeposit investment products	178	174
Income from bank owned life insurance	165	203

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

Loan related fees	109	104
Commissions on loans originated for others	17	109
Gains on sales of investment securities	197	54
Gains on sales of mortgage-backed securities	--	104
Other income	320	216
	-----	-----
Total noninterest income	1,998	1,916
	-----	-----
Noninterest expense:		
Salaries and employee benefits	3,893	3,298
Occupancy	680	603
Equipment	386	336
Data processing	670	845
Marketing	355	297
Professional services	285	277
Loan servicing	278	228
Loan workout and other real estate owned expense	22	15
Other expenses	1,006	974
	-----	-----
Total noninterest expense	7,575	6,873
	-----	-----
Income before income taxes	3,065	2,457
Income tax expense	1,001	785
	-----	-----
Net income	\$ 2,064	\$ 1,672
	=====	=====

Per share data:

Basic earnings per common share	\$ 0.52	\$ 0.44
Diluted earnings per common share	\$ 0.49	\$ 0.42
Average common shares outstanding - basic	3,946,668	3,779,007
Average common shares outstanding - diluted	4,193,328	4,021,127

See accompanying notes to consolidated financial statements

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

Three months ended March 31,	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss), Net	Total
-----	-----	-----	-----	-----	-----
2003					
Balance at December 31, 2002	\$38	\$40,134	\$24,002	\$2,253	\$66,427
Net income	--	--	1,672	--	1,672
Other comprehensive income, net of tax:					
Unrealized holding loss on					

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

securities available for sale, net of taxes of \$85				(158)	(158)
Reclassification adjustment, net of taxes of \$55				(103)	(103)
Comprehensive income					1,411
Exercise of stock options	--	134	--	--	134
Common stock issued for incentive stock award, net	--	8	--	--	8
Dividends on common stock	--	--	(531)	--	(531)
	---	-----	-----	-----	-----
Balance at March 31, 2003	\$38	\$40,276	\$25,143	\$1,992	\$67,449
	===	=====	=====	=====	=====
2004					
Balance at December 31, 2003	\$39	\$41,439	\$29,074	\$1,555	\$72,107
Net income	--	--	2,064	--	2,064
Other comprehensive income, net of tax:					
Unrealized holding gain on securities available for sale, net of taxes of \$504				936	936
Reclassification adjustment, net of taxes of \$64				(133)	(133)
					-----
Comprehensive income					2,867
Exercise of stock options	1	179	--	--	180
Exercise of stock warrants	--	700	--	--	700
Common stock issued for incentive stock award, net	--	9	--	--	9
Dividends on common stock	--	--	(557)	--	(557)
	---	-----	-----	-----	-----
Balance at March 31, 2004	\$40	\$42,327	\$30,581	\$2,358	\$75,306
	===	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

5

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2004	2003
	----	----
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 2,064	\$ 1,672
Adjustments to reconcile net income to net		

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

cash from operating activities:		
Depreciation and amortization	874	922
Provision for loan losses	300	400
Gain on sale of investment securities	(197)	(54)
Gain on sale of mortgage-backed securities	--	(104)
Gain on sale of other real estate owned	--	10
Income from bank-owned life insurance	(165)	(204)
Compensation expense from restricted stock grant	9	8
(Increase) decrease in:		
Accrued interest receivable	56	99
Prepaid expenses and other assets	(882)	(403)
Increase (decrease) in:		
Other liabilities	(335)	(581)
Other, net	3	4
	-----	-----
Net cash provided (used) by operating activities	1,727	1,769
	-----	-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(3,003)	(6,032)
Commercial loans	(22,432)	(24,597)
Consumer loans	(17,658)	(17,725)
Purchase of:		
Investment securities available for sale	(9,998)	(16,573)
Mortgage-backed securities available for sale	(5,016)	(33,640)
Residential mortgage loans	(17,091)	(50,081)
Federal Home Loan Bank of Boston stock	--	(217)
Principal payments on:		
Investment securities available for sale	9,000	18,000
Mortgage-backed securities available for sale	11,212	22,645
Residential mortgage loans	29,955	49,313
Commercial loans	6,179	6,982
Consumer loans	11,313	8,166
Proceeds from sale of investment securities	2,243	2,060
Proceeds from sale of mortgage-backed securities	--	25,164
Capital expenditures for premises and equipment	(978)	(1,970)
	-----	-----
Net cash provided (used) by investing activities	(6,274)	(18,505)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in deposits	25,375	1,041
Net increase (decrease) in overnight and short-term borrowings	5,232	(8,673)
Proceeds from long-term borrowings	22,155	29,000
Repayment of long-term borrowings	(19,981)	(14,944)
Proceeds from issuance of common stock	880	134
Dividends on common stock	(557)	(531)
	-----	-----
Net cash provided (used) by financing activities	33,104	6,027
	-----	-----
Net increase (decrease) in cash and cash equivalents	28,557	(10,709)
Cash and cash equivalents at beginning of period	27,817	42,959
	-----	-----
Cash and cash equivalents at end of period	\$ 56,374	\$ 32,250
	=====	=====
Supplementary Disclosures:		
Cash paid for interest	\$ 4,567	\$ 5,244
Cash paid for income taxes	1,225	27

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

Non-cash transactions:

Change in other comprehensive income, net of taxes	803	(261)
--	-----	-------

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 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 period also included the results of BRI Statutory Trusts I and II (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.

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



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

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 Financial Accounting Standards Board ("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 March 31,	
	2004	2003
	----	----
Net income (in thousands):		
As reported	\$ 2,064	\$ 1,672
Compensation cost, net of taxes (1)	(54)	(23)
Pro forma	\$ 2,010	\$ 1,649
	=====	=====

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

Earnings per common share:

Basic:

As reported	\$ 0.52	\$ 0.44
Compensation cost, net of taxes (1)	(0.01)	(0.00)
	-----	-----
Pro forma	\$ 0.51	\$ 0.44
	=====	=====

Diluted:

As reported	\$ 0.49	\$ 0.42
Compensation cost, net of taxes (1)	(0.01)	(0.01)
	-----	-----
Pro forma	\$ 0.48	\$ 0.41
	=====	=====