

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

BANCORP RHODE ISLAND INC  
Form 10-Q  
November 10, 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: September 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 November 8, 2004:

-----  
Common Stock - Par Value \$0.01

4,008,254 shares

-----  
(class)

-----  
(outstanding)

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FORM 10-Q

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	September 30, 2004	December 31, 2003
	-----	-----
	(In thousands) (Unaudited)	
<b>ASSETS:</b>		
Cash and due from banks	\$ 22,981	\$ 27,084
Overnight investments	3,965	733
	-----	-----
Total cash and cash equivalents	26,946	27,817
Investment securities available for sale (amortized cost of \$106,508 and \$96,828, respectively)	107,971	98,595
Mortgage-backed securities available for sale (amortized cost of \$156,879 and \$106,028, respectively)	157,069	106,618
Stock in Federal Home Loan Bank of Boston	11,865	9,554
Loans receivable:		
Commercial loans	392,016	332,266
Residential mortgage loans	316,726	366,230
Consumer and other loans	160,348	115,786
	-----	-----
Total loans	869,090	814,282
Less allowance for loan losses	(11,673)	(11,078)
	-----	-----
Net loans	857,417	803,204
Premises and equipment, net	12,597	12,457
Goodwill	10,766	10,766
Accrued interest receivable	5,687	5,597
Investment in bank-owned life insurance	15,969	15,491
Prepaid expenses and other assets	4,644	3,872
	-----	-----
Total assets	\$1,210,931	\$1,093,971
	=====	=====
<b>LIABILITIES:</b>		
Deposits:		
Demand deposit accounts	\$ 177,953	\$ 159,916
NOW accounts	116,082	129,398
Money market accounts	16,096	16,937
Savings accounts	357,092	292,277
Certificate of deposit accounts	218,825	212,755
	-----	-----
Total deposits	886,048	811,283
Overnight and short-term borrowings	11,239	13,460
Federal Home Loan Bank of Boston borrowings	210,789	176,759
Subordinated deferrable interest debentures	18,558	13,403
Other liabilities	6,827	6,959
	-----	-----
Total liabilities	1,133,461	1,021,864
	-----	-----
<b>SHAREHOLDERS' EQUITY:</b>		
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,		

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authorized 11,000,000 shares:

Issued and outstanding 4,006,254 shares and 3,891,190 shares, respectively	40	39
Additional paid-in capital	42,642	41,439
Retained earnings	33,698	29,074
Accumulated other comprehensive income, net	1,090	1,555
	-----	-----
Total shareholders' equity	77,470	72,107
	-----	-----
Total liabilities and shareholders' equity	\$1,210,931	\$1,093,971
	=====	=====

See accompanying notes to consolidated financial statements

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BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Operations

	Three Months Ended September 30,		Ni
	2004	2003	20
	(In thousands, except per (Unaudited))		
Interest and dividend income:			
Commercial loans	\$ 5,891	\$ 4,975	\$ 16
Residential mortgage loans	4,081	4,444	13
Consumer and other loans	1,882	1,284	4
Mortgage-backed securities	1,714	973	4
Investment securities	1,240	854	3
Overnight investments	17	59	
Federal Home Loan Bank of Boston stock dividends	85	69	
	-----	-----	-----
Total interest and dividend income	14,910	12,658	42
	-----	-----	-----
Interest expense:			
NOW accounts	272	333	
Money market accounts	55	27	
Savings accounts	1,088	922	2
Certificate of deposit accounts	1,411	1,458	4
Overnight and short-term borrowings	38	20	
Federal Home Loan Bank of Boston borrowings	1,924	1,803	5
Subordinated deferrable interest debentures	276	--	
Company-obligated mandatorily redeemable capital securities	--	203	
	-----	-----	-----
Total interest expense	5,064	4,766	14
	-----	-----	-----
Net interest income	9,846	7,892	27
Provision for loan losses	200	400	
	-----	-----	-----
Net interest income after provision for loan losses	9,646	7,492	27

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Noninterest income:			
Service charges on deposit accounts	1,156	957	3
Commissions on nondeposit investment products	312	220	
Income from bank-owned life insurance	159	171	
Loan related fees	104	127	
Commissions on loans originated for others	12	128	
Gain (loss) on sale of investment securities	(9)	348	
Gain (loss) on sale of mortgage-backed securities	--	--	
Other income	303	283	
	-----	-----	-----
Total noninterest income	2,037	2,234	6
	-----	-----	-----
Noninterest expense:			
Salaries and employee benefits	4,566	3,697	12
Occupancy	675	595	2
Equipment	409	389	1
Data processing	664	599	2
Marketing	270	235	1
Professional services	512	289	1
Loan servicing	239	270	
Loan workout and other real estate owned expense	8	33	
Other expenses	1,038	930	3
	-----	-----	-----
Total noninterest expense	8,381	7,037	23
	-----	-----	-----
Income before income taxes	3,302	2,689	9
Income tax expense	1,124	904	3
	-----	-----	-----
Net income	\$ 2,178	\$ 1,785	\$ 6
	=====	=====	=====
Per share data:			
Basic earnings per common share	\$ 0.55	\$ 0.47	\$
Diluted earnings per common share	\$ 0.52	\$ 0.44	\$
Average common shares outstanding - basic	3,988,311	3,830,461	3,967
Average common shares outstanding - diluted	4,228,666	4,084,174	4,212

See accompanying notes to consolidated financial statements

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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	Total
Nine months ended September 30,	-----	-----	-----	-----	-----
			(In thousands)		
			(Unaudited)		

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2003

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Balance at December 31, 2002	\$38	\$40,134	\$24,002	\$ 2,253	\$66,427
Net income	--	--	5,219	--	5,219
Other comprehensive income, net of tax:					
Unrealized holding gain on securities available for sale, net of taxes of \$315				(612)	(612)
Reclassification adjustment, net of taxes of \$267				(518)	(518)
Comprehensive income					4,089
Exercise of stock options	--	415	--	--	415
Exercise of stock warrants	1	662	--	--	663
Common stock issued for incentive stock award, net	--	26	--	--	26
Dividends on common stock	--	--	(1,598)	--	(1,598)
	----	-----	-----	-----	-----
Balance at September 30, 2003	\$39	\$41,237	\$27,623	\$ 1,123	\$70,022
	===	=====	=====	=====	=====

2004

----

Balance at December 31, 2003	\$39	\$41,439	\$29,074	\$ 1,555	\$72,107
Net income	--	--	6,337	--	6,337
Other comprehensive income, net of tax:					
Unrealized holding losses on securities available for sale, net of taxes of \$127				(246)	(246)
Reclassification adjustment, net of taxes of \$113				(219)	(219)
Comprehensive income					5,872
Exercise of stock options	--	478	--	--	478
Exercise of stock warrants	1	699	--	--	700
Common stock issued for incentive stock award, net	--	26	--	--	26
Dividends on common stock	--	--	(1,713)	--	(1,713)
	----	-----	-----	-----	-----
Balance at September 30, 2004	\$40	\$42,642	\$33,698	\$ 1,090	\$77,470
	===	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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	Nine Months Ended September 30, 2004	
	----- 2004 ----- (In thousands) (Unaudited)	
Cash flows from operating activities:		
Net income	\$	6,337
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization		2,840
Provision for loan losses		700
Gain on sale of investment securities		(332)
Gain on sale of mortgage-backed securities		--
Gain on sale of other real estate owned		--
Income from bank-owned life insurance		(478)
Compensation expense from restricted stock grant		26
(Increase) decrease in:		
Accrued interest receivable		(90)
Prepaid expenses and other assets		(533)
Increase (decrease) in:		
Other liabilities		(132)
Other, net		21
		-----
Net cash provided by operating activities		8,359
		-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans		(7,429)
Commercial loans		(82,835)
Consumer loans		(75,437)
Purchase of:		
Investment securities available for sale		(48,993)
Mortgage-backed securities available for sale		(88,660)
Residential mortgage loans		(37,494)
Federal Home Loan Bank of Boston stock		(2,311)
Principal payments on:		
Investment securities available for sale		31,000
Mortgage-backed securities available for sale		37,509
Residential mortgage loans		93,898
Commercial loans		23,138
Consumer loans		30,623
Proceeds from sale of investment securities		8,428
Proceeds from sale of mortgage-backed securities		--
Proceeds from sale of other real estate owned		--
Capital expenditures for premises and equipment		(1,861)
		-----
Net cash used by investing activities		(120,424)
		-----
Cash flows from financing activities:		
Net increase in deposits		74,765
Net increase (decrease) in overnight and short-term borrowings		(2,221)
Proceeds from long-term borrowings		119,155
Repayment of long-term borrowings		(79,970)
Proceeds from issuance of common stock		1,178
Dividends on common stock		(1,713)
		-----
Net cash provided by financing activities		111,194
		-----

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Net (decrease) increase in cash and cash equivalents	(871)	
Cash and cash equivalents at beginning of period	27,817	
	-----	
Cash and cash equivalents at end of period	\$ 26,946	\$
	=====	=====
Supplementary Disclosures:		
Cash paid for interest	\$ 14,074	\$
Cash paid for income taxes	3,777	
Non-cash transactions:		
Change in other comprehensive income, net of taxes	(465)	

See accompanying notes to consolidated financial statements

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### 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



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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

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.

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### (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 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 either the modified prospective grant-date measurement approach, or the modified retrospective grant-date measurement approach, as defined in SFAS 123. Compensation cost would be recognized in the financial statements prospectively over the requisite service period for interim periods beginning after June 15, 2005, as if all share-based compensation awards granted, modified or settled after December 15, 1994 had been accounted for using the fair value method of accounting. A final Statement is expected in the fourth quarter of 2004. We are still assessing the impact of the proposed Statement on our financial statements. Until the 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:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 ----	2003 ----	2004 ----	2003 ----
Net income (in thousands):				
As reported	\$2,178	\$1,785	\$6,337	\$5,219
Compensation cost, net of taxes (1)	(142)	(47)	(383)	(142)
	-----	-----	-----	-----
Pro forma	\$2,036	\$1,738	\$5,954	\$5,077
	=====	=====	=====	=====
Earnings per common share:				
Basic:				
As reported	\$ 0.55	\$ 0.47	\$ 1.60	\$ 1.37
Compensation cost, net of taxes (1)	(0.04)	(0.01)	(0.10)	(0.04)
	-----	-----	-----	-----
Pro forma	\$ 0.51	\$ 0.46	\$ 1.50	\$ 1.33
	=====	=====	=====	=====
Diluted:				
As reported	\$ 0.52	\$ 0.44	\$ 1.50	\$ 1.29
Compensation cost, net of taxes (1)	(0.03)	(0.01)	(0.09)	(0.04)
	-----	-----	-----	-----
Pro forma	\$ 0.49	\$ 0.43	\$ 1.41	\$ 1.25
	=====	=====	=====	=====