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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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BANCORP RHODE ISLAND, INC.

FORM 10-Q

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| | September 30, 2004 | December 31, 2003 |
|---|-------------------------------|----------------------|
| | ----- | ----- |
| | (In thousands) (Unaudited) | |
| ASSETS: | | |
| 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 |
| | ===== | ===== |
| LIABILITIES: | | |
| 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 |
| | ----- | ----- |
| 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, | | |

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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

| | | | | | |
|---|------|----------|----------|----------|----------|
| 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 |
| | ===== | ===== | ===== | ===== |