

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

BANCORP RHODE ISLAND INC
Form 10-Q
May 04, 2005

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, 2005

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 (X) No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of May 2, 2005:

Common Stock - Par Value \$0.01	4,570,279 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 of Financial Condition and Results of Operations	10 - 22
Item 3 Quantitative and Qualitative Disclosures About Market Risk	23 - 24
Item 4 Controls and Procedures	24
PART II - OTHER INFORMATION	
Item 1 Legal Proceedings	25
Item 2 Changes in Securities	25
Item 3 Default upon Senior Securities	25
Item 4 Submission of Matters to a Vote of Security Holders	25
Item 5 Other Information	25
Item 6 Exhibits and Reports on Form 8-K	25
Signature Page	26

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

	March 31, 2005	December 31, 2004
	-----	-----
	(In thousands)	
ASSETS:		
Cash and due from banks	\$ 24,475	\$ 21,585
Overnight investments	6,780	14,094
	-----	-----
Total cash and cash equivalents	31,255	35,679
Investment securities available for sale (amortized cost of \$131,839 and \$103,953 at March 31, 2005 and December 31, 2004, respectively)	130,021	104,600
Mortgage-backed securities available for sale (amortized cost of \$186,361 and \$159,581 at March 31, 2005 and December 31, 2004, respectively)	184,518	159,946
Stock in Federal Home Loan Bank of Boston	13,843	13,229
Loans and leases receivable:		
Commercial loans and leases	405,043	402,770
Residential mortgage loans	326,579	316,135
Consumer and other loans	174,811	167,396
	-----	-----
Total loans and leases receivable	906,433	886,301
Less allowance for loan and lease losses	(12,212)	(11,906)
	-----	-----
Net loans and leases receivable	894,221	874,395
Premises and equipment, net	12,106	11,857
Goodwill	10,766	10,766
Accrued interest receivable	6,246	5,666
Investment in bank-owned life insurance	18,304	18,132
Prepaid expenses and other assets	7,101	4,799
	-----	-----
Total assets	\$1,308,381	\$1,239,069
	=====	=====
LIABILITIES:		
Deposits:		
Demand deposit accounts	\$ 174,750	\$ 167,682
NOW accounts	101,269	108,159
Money market accounts	18,081	16,489
Savings accounts	328,026	339,836
Certificate of deposit accounts	278,975	248,508
	-----	-----
Total deposits	901,101	880,674
Overnight and short-term borrowings	24,255	18,050
Wholesale repurchase agreements	19,880	--
Federal Home Loan Bank of Boston borrowings	258,757	234,778
Subordinated deferrable interest debentures	18,558	18,558
Other liabilities	8,040	8,086
	-----	-----
Total liabilities	1,230,591	1,160,146
	-----	-----
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,		

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

authorized 11,000,000 shares:

Issued and outstanding 4,019,329 shares and 4,010,554 shares, respectively	40 40	40 40
Additional paid-in capital	42,951	42,852
Retained earnings	37,178	35,373
Accumulated other comprehensive income, net	(2,379)	658
	-----	-----
Total shareholders' equity	77,790	78,923
	-----	-----
Total liabilities and shareholders' equity	\$1,308,381	\$1,239,069
	=====	=====

See accompanying notes to consolidated financial statements

3

BANCORP RHODE ISLAND, INC. Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2005	2004
	-----	-----
(In thousands, except per share data)		
Interest and dividend income:		
Commercial loans and leases	\$ 6,370	\$ 5,209
Residential mortgage loans	3,969	4,695
Consumer and other loans	2,186	1,429
Mortgage-backed securities	1,797	1,121
Investment securities	1,237	1,096
Overnight investments	56	23
Federal Home Loan Bank of Boston stock dividends	130	51
	-----	-----
Total interest and dividend income	15,745	13,624
	-----	-----
Interest expense:		
NOW accounts	177	377
Money market accounts	55	55
Savings accounts	1,012	849
Certificate of deposit accounts	1,722	1,394
Overnight and short-term borrowings	115	35
Wholesale repurchase agreements	8	--
Federal Home Loan Bank of Boston borrowings	1,988	1,753
Subordinated deferrable interest debentures	297	219
	-----	-----
Total interest expense	5,374	4,682
	-----	-----
Net interest income	10,371	8,942
Provision for loan and lease losses	300	300
	-----	-----
Net interest income after provision for		

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

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 gains 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 (\$ 0.14 per common share)	--	--	(557)	--	(557)
Balance at March 31, 2004	\$40	\$42,327	\$30,581	\$ 2,358	\$75,306

2005

Balance at December 31, 2004	\$40	\$42,852	\$35,373	\$ 658	\$78,923
Net income	--	--	2,407	--	2,407
Other comprehensive income, net of tax:					
Unrealized holding losses on securities available for sale, net of taxes of \$1,631				(3,042)	(3,042)
Reclassification adjustment, net of taxes of \$(3)				5	5
Comprehensive loss					(630)
Exercise of stock options	--	90	--	--	90
Common stock issued for incentive stock award, net	--	9	--	--	9
Dividends on common stock (\$ 0.15 per common share)	--	--	(602)	--	(602)
Balance at March 31, 2005	\$40	\$42,951	\$37,178	\$(2,379)	\$77,790

See accompanying notes to consolidated financial statements

5

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Cash Flows
(Unaudited)

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

	Three Months Ended March 31,	
	2005	2004
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 2,407	\$ 2,064
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	701	874
Provision for loan losses	300	300
Gain on sale of investment securities	--	(197)
Loss on sale of mortgage-backed securities	8	--
Gain on sale of other real estate owned	--	--
Income from bank-owned life insurance	(172)	(165)
Compensation expense from restricted stock grant	9	9
(Increase) decrease in:		
Accrued interest receivable	(580)	56
Prepaid expenses and other assets	(667)	(882)
Increase (decrease) in:		
Other liabilities	(46)	(335)
Other, net	6	3
Net cash provided by operating activities	1,966	1,727
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(2,674)	(3,003)
Commercial loans	(20,964)	(22,432)
Consumer loans	(16,055)	(17,658)
Purchase of:		
Investment securities available for sale	(27,933)	(9,998)
Mortgage-backed securities available for sale	(38,929)	(5,016)
Residential mortgage loans	(22,230)	(17,091)
Federal Home Loan Bank of Boston stock	(614)	--
Principal payments on:		
Investment securities available for sale	--	9,000
Mortgage-backed securities available for sale	8,686	11,212
Residential mortgage loans	14,398	29,955
Commercial loans	18,770	6,179
Consumer loans	8,570	11,313
Proceeds from sale of investment securities	--	2,243
Proceeds from sale of mortgage-backed securities	3,423	--
Capital expenditures for premises and equipment	(817)	(978)
Net cash used by investing activities	(76,369)	(6,274)
Cash flows from financing activities:		
Net increase in deposits	20,427	25,375
Net increase in overnight and short-term borrowings	6,205	5,232
Proceeds from long-term borrowings	79,880	22,155
Repayment of long-term borrowings	(36,021)	(19,981)
Proceeds from issuance of common stock	90	880
Dividends on common stock	(602)	(557)
Net cash provided by financing activities	69,979	33,104

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

	-----	-----
Net increase (decrease) in cash and cash equivalents	(4,424)	28,557
Cash and cash equivalents at beginning of period	35,679	27,817
	-----	-----
Cash and cash equivalents at end of period	\$ 31,255	\$ 56,374
	=====	=====
Supplementary Disclosures:		
Cash paid for interest	\$ 5,203	\$ 4,567
Cash paid for income taxes	432	1,225
Non-cash transactions:		
Change in other comprehensive income, net of taxes	(3,037)	803

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, is the holding company for Bank Rhode Island (the "Bank"). The Company has no significant assets other than the common stock of 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.

The audited 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 deconsolidated its statutory trust subsidiaries as of that date. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited 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 on Form 10-K filed with the Securities and Exchange Commission ("SEC").

In preparing the unaudited 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

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

have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("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 Company.

7

(3) Stock Based Compensation

The Company has adopted Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation." This Statement establishes a fair value based method of accounting for stock-based compensation plans under which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. However, the Statement allows a company to continue to measure compensation cost for such plans using the intrinsic value method under which no compensation cost is recorded if, at the grant date, the exercise price of the option is equal to the fair market value of the company's stock. The Company has elected to continue to follow the intrinsic value method, accordingly, the Company must disclose in the notes to their financial statements various information as if the fair value based method of accounting had been applied.

In December 2004, the FASB issued SFAS 123-R, "Share-Based Payment", which requires companies to recognize an expense in the income statement for the grant-date fair value of stock options and other equity-based compensation issued to employees using the fair value method. This expense will be recognized over the period during which an employee is required to provide service in exchange for the award. This Statement carries forward prior guidance on accounting for awards to non-employees. If an equity award is modified after grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately prior to the modification.

On April 14, 2005, the SEC announced the adoption of a new rule that amends the compliance dates for SFAS 123-R, which requires registrants to implement SFAS 123-R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005, which for the Company is January 1, 2006.

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,	

2005	2004

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

	-----	-----
Net income (in thousands):		
As reported	\$2,407	\$2,064
Compensation cost, net of taxes (1)	(38)	(54)
	-----	-----
Pro forma	\$2,369	\$2,010
	=====	=====
Earnings per common share:		
Basic:		
As reported	\$ 0.60	\$ 0.52
Compensation cost, net of taxes (1)	(0.01)	(0.01)
	-----	-----
Pro forma	\$ 0.59	\$ 0.51
	=====	=====
Diluted:		
As reported	\$ 0.57	\$ 0.49
Compensation cost, net of taxes (1)	(0.01)	(0.01)
	-----	-----
Pro forma	\$ 0.56	\$ 0.48
	=====	=====