

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

BANCORP RHODE ISLAND INC
Form 10-Q
August 08, 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: June 30, 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 August 5, 2005:

Common Stock - Par Value \$0.01	4,653,702 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 - 24
Item 3	Quantitative and Qualitative Disclosures About Market Risk	25 - 26
Item 4	Controls and Procedures	26
PART II - OTHER INFORMATION		
Item 1	Legal Proceedings	27
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3	Default upon Senior Securities	27
Item 4	Submission of Matters to a Vote of Security Holders	27 - 28
Item 5	Other Information	28
Item 6	Exhibits	28
	Signature Page	29

2

BANCORP RHODE ISLAND, INC.
Consolidated Balance Sheets
(Unaudited)

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

	June 30, 2005	December 31, 2004
	-----	-----
	(In thousands)	
ASSETS:		
Cash and due from banks	\$ 29,523	\$ 21,585
Overnight investments	867	14,094
	-----	-----
Total cash and cash equivalents	30,390	35,679
Investment securities available for sale (amortized cost of \$131,816 and \$103,953 at June 30, 2005 and December 31, 2004, respectively)	131,407	104,600
Mortgage-backed securities available for sale (amortized cost of \$229,880 and \$159,581 at June 30, 2005 and December 31, 2004, respectively)	229,523	159,946
Stock in Federal Home Loan Bank of Boston	15,526	13,229
Loans and leases receivable:		
Commercial loans and leases	433,267	402,770
Residential mortgage loans	306,657	316,135
Consumer and other loans	185,729	167,396
	-----	-----
Total loans and leases receivable	925,653	886,301
Less allowance for loan and lease losses	(11,394)	(11,906)
	-----	-----
Net loans and leases receivable	914,259	874,395
Premises and equipment, net	14,535	11,857
Goodwill	11,234	10,766
Accrued interest receivable	6,167	5,666
Investment in bank-owned life insurance	18,473	18,132
Prepaid expenses and other assets	6,459	4,799
	-----	-----
Total assets	\$1,377,973	\$1,239,069
	=====	=====
LIABILITIES:		
Deposits:		
Demand deposit accounts	\$ 187,554	\$ 167,682
NOW accounts	94,826	108,159
Money market accounts	16,038	16,489
Savings accounts	332,450	339,836
Certificate of deposit accounts	303,095	248,508
	-----	-----
Total deposits	933,963	880,674
Overnight and short-term borrowings	16,594	18,050
Wholesale repurchase agreements	10,000	--
Federal Home Loan Bank of Boston borrowings	286,289	234,778
Subordinated deferrable interest debentures	18,558	18,558
Other liabilities	9,383	8,086
	-----	-----
Total liabilities	1,274,787	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, authorized 11,000,000 shares:		
Issued and outstanding 4,655,977 shares and 4,010,554 shares,		

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

respectively	47	40
Additional paid-in capital	64,685	42,852
Retained earnings	38,953	35,373
Accumulated other comprehensive (loss) income, net	(499)	658
	-----	-----
Total shareholders' equity	103,186	78,923
	-----	-----
Total liabilities and shareholders' equity	\$1,377,973	\$1,239,069
	=====	=====

See accompanying notes to consolidated financial statements

3

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

	Three Months Ended June 30,		
	2005	2004	2003
	-----	-----	-----
	(In thousands, except per s		
Interest and dividend income:			
Commercial loans and leases	\$ 6,806	\$ 5,670	\$ 13,770
Residential mortgage loans	4,026	4,242	7,111
Consumer and other loans	2,371	1,552	4,242
Mortgage-backed securities	2,294	1,211	4,242
Investment securities	1,373	1,019	2,111
Overnight investments	44	42	42
Federal Home Loan Bank of Boston stock dividends	154	61	154
	-----	-----	-----
Total interest and dividend income	17,068	13,797	32,062
	-----	-----	-----
Interest expense:			
NOW accounts	154	312	312
Money market accounts	58	50	50
Savings accounts	1,072	889	2,077
Certificate of deposit accounts	2,077	1,371	3,148
Overnight and short-term borrowings	133	31	133
Wholesale repurchase agreements	92	--	92
Federal Home Loan Bank of Boston borrowings	2,399	1,772	4,171
Subordinated deferrable interest debentures	313	261	313
	-----	-----	-----
Total interest expense	6,298	4,686	11,402
	-----	-----	-----
Net interest income	10,770	9,111	21,060
Provision for loan and lease losses	354	200	354
	-----	-----	-----
Net interest income after provision for loan and lease losses	10,416	8,911	20,706
	-----	-----	-----
Noninterest income:			
Service charges on deposit accounts	1,152	1,206	1,152

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

Commissions on nondeposit investment products	198	268	
Income from bank-owned life insurance	168	154	
Loan related fees	156	96	
Commissions on loans originated for others	62	23	
Gain on sale of investment securities	--	144	
Gain on sale of mortgage-backed securities	104	--	
Other income	605	315	
	-----	-----	-----
Total noninterest income	2,445	2,206	4
	-----	-----	-----
Noninterest expense:			
Salaries and employee benefits	4,848	4,129	9
Occupancy	771	652	1
Equipment	410	402	
Data processing	745	722	1
Marketing	469	420	
Professional services	523	357	1
Loan servicing	239	253	
Loan workout and other real estate owned expense	23	48	
Other expenses	1,097	997	2
	-----	-----	-----
Total noninterest expense	9,125	7,980	17
	-----	-----	-----
Income before income taxes	3,736	3,137	7
Income tax expense	1,276	1,042	2
	-----	-----	-----
Net income	\$ 2,460	\$ 2,095	\$ 4
	=====	=====	=====
Per share data:			
Basic earnings per common share	\$ 0.55	\$ 0.53	\$
Diluted earnings per common share	\$ 0.52	\$ 0.50	\$
Average common shares outstanding - basic	4,508,165	3,966,526	4,258
Average common shares outstanding - diluted	4,737,503	4,214,017	4,497

See accompanying notes to consolidated financial statements

4

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

Six months ended June 30,	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss), Net
-----	-----	-----	-----	-----
			(In thousands)	
2004				
Balance at December 31, 2003	\$39	\$41,439	\$29,074	\$ 1,555
Net income	--	--	4,159	--

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

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 (\$ 0.28 per common share)	--	--	(1,113)	--
	---	-----	-----	-----
Balance at June 30, 2004	\$40	\$42,450	\$32,120	\$(1,950)
	===	=====	=====	=====
2005				
Balance at December 31, 2004	\$40	\$42,852	\$35,373	\$ 658
Net income	--	--	4,867	--
Other comprehensive income, net of tax:				
Unrealized holding losses on securities available for sale, net of taxes of \$590				(1,095)
Reclassification adjustment, net of taxes of \$34				(62)
Comprehensive loss				
Proceeds from stock offering	7	21,450	--	--
Acquisition of Macrolease	--	250	--	--
Exercise of stock options	--	116	--	--
Common stock issued for incentive stock award, net	--	17	--	--
Dividends on common stock (\$ 0.30 per common share)	--	--	(1,287)	--
	---	-----	-----	-----
Balance at June 30, 2005	\$47	\$64,685	\$38,953	\$(499)
	===	=====	=====	=====

See accompanying notes to consolidated financial statements

5

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

Six Months Ended
June 30,

2005 2004

(In thousands)

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

Cash flows from operating activities:		
Net income	\$ 4,867	\$ 4,159
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,437	1,982
Provision for loan and lease losses	654	500
Gain on sale of investment securities	--	(341)
Gain on sale of mortgage-backed securities	(96)	--
Income from bank-owned life insurance	(340)	(319)
Compensation expense from restricted stock grant	17	18
(Increase) decrease in:		
Accrued interest receivable	(501)	(40)
Prepaid expenses and other assets	(1,040)	(551)
Increase (decrease) in:		
Other liabilities	1,297	(1,218)
Other, net	(180)	10
	-----	-----
Net cash provided by operating activities	6,115	4,200
	-----	-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(3,026)	(5,039)
Commercial loans and leases	(43,900)	(50,361)
Consumer loans	(39,061)	(49,080)
Purchase of:		
Investment securities available for sale	(37,932)	(43,993)
Mortgage-backed securities available for sale	(100,334)	(74,545)
Residential mortgage loans	(22,230)	(27,445)
Federal Home Loan Bank of Boston stock	(2,297)	(1,591)
Principal payments on:		
Investment securities available for sale	9,999	21,000
Mortgage-backed securities available for sale	20,692	26,923
Residential mortgage loans	34,558	69,167
Commercial loans and leases	12,406	12,423
Consumer loans	20,568	24,051
Proceeds from sale of investment securities	--	4,372
Proceeds from sale of mortgage-backed securities	9,359	--
Capital expenditures for premises and equipment	(3,836)	(1,706)
	-----	-----
Net cash used by investing activities	(145,034)	(95,824)
	-----	-----
Cash flows from financing activities:		
Net increase in deposits	53,289	76,540
Net increase (decrease) in overnight and short-term borrowings	(1,456)	2,920
Proceeds from long-term borrowings	202,750	55,155
Repayment of long-term borrowings	(141,239)	(27,971)
Proceeds from issuance of common stock	21,573	994
Dividends on common stock	(1,287)	(1,113)
	-----	-----
Net cash provided by financing activities	133,630	106,525
	-----	-----
Net (decrease) increase in cash and cash equivalents	(5,289)	14,901
Cash and cash equivalents at beginning of period	35,679	27,817
	-----	-----
Cash and cash equivalents at end of period	\$ 30,390	\$ 42,718
	=====	=====

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

Supplementary Disclosures:

Cash paid for interest	\$ 11,453	\$ 8,887
Cash paid for income taxes	3,337	2,840
Non-cash transactions:		
Change in other comprehensive income, net of taxes	(1,157)	(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, 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), Macrolease Corporation (an equipment leasing 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 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

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 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 its 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 June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	----	----	----	----
Net income (in thousands):				
As reported	\$2,460	\$2,095	\$4,867	\$4,159
Compensation cost, net of taxes (1)	(128)	(187)	(166)	(241)
	-----	-----	-----	-----
Pro forma	\$2,332	\$1,908	\$4,701	\$3,918

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

	=====	=====	=====	=====
Earnings per common share:				
Basic:				
As reported	\$ 0.55	\$ 0.53	\$ 1.14	\$ 1.05
Compensation cost, net of taxes (1)	(0.03)	(0.05)	(0.04)	(0.06)
	-----	-----	-----	-----
Pro forma	\$ 0.52	\$ 0.48	\$ 1.10	\$.99
	=====	=====	=====	=====
Diluted:				
As reported	\$ 0.52	\$ 0.50	\$ 1.08	\$.99
Compensation cost, net of taxes (1)	(0.03)	(0.04)	(0.03)	(0.06)
	-----	-----	-----	-----
Pro forma	\$ 0.49	\$ 0.46	\$ 1.05	\$.93
	=====	=====	=====	=====