

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

BANCORP RHODE ISLAND INC  
Form 10-Q  
November 12, 2003

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, 2003

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 10, 2003:

Common Stock - Par Value \$0.01

3,885,190 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 - 8
Item 2 Management's Discussion and Analysis	9 - 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 Defaults 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

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

September 30,  
2003

(Dollars in

ASSETS:

Cash and due from banks	\$ 22,919
Overnight investments	37,842
	-----
Total cash and cash equivalents	60,761
Investment securities available for sale (amortized cost of \$77,103 and \$99,803 at September 30, 2003 and December 31, 2002, respectively)	78,658
Mortgage-backed securities available for sale (amortized cost of \$102,728 and \$154,225 at September 30, 2003 and December 31, 2002, respectively)	102,875
Stock in Federal Home Loan Bank of Boston	8,934
Loans receivable:	
Commercial loans	318,222
Residential mortgage loans	366,580
Consumer and other loans	104,734
	-----
Total loans	789,536
Less allowance for loan losses	(10,808)
	-----
Net loans	778,728
Premises and equipment, net	12,287
Other real estate owned	--
Goodwill	10,766
Accrued interest receivable	5,626
Investment in bank-owned life insurance	15,347
Prepaid expenses and other assets	3,782
	-----
Total assets	\$1,077,764
	=====

LIABILITIES:

Deposits:	
Demand deposit accounts	\$ 153,329
NOW accounts	123,519
Money market accounts	13,157
Savings accounts	309,274
Certificate of deposit accounts	201,133
	-----
Total deposits	800,412
Overnight and short-term borrowings	12,693
Federal Home Loan Bank of Boston borrowings	176,732
Company-obligated mandatorily redeemable capital securities	13,000
Other liabilities	4,905
	-----
Total liabilities	1,007,742
	-----

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:	
Voting: Issued and outstanding 3,885,080 shares in 2003 and 3,777,450 in 2002	39
Additional paid-in capital	41,237
Retained earnings	27,623
Accumulated other comprehensive income, net	1,123
	-----

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

Total shareholders' equity	70,022
	-----
Total liabilities and shareholders' equity	\$1,077,764
	=====

See accompanying notes to consolidated financial statements

3

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Operations

	Three Months Ended September 30,		
	2003	2002	
(Dollars in thousands, except			
Interest and dividend income:			
Commercial loans	\$ 4,975	\$ 4,833	\$
Residential mortgage loans	4,444	4,555	
Consumer and other loans	1,284	988	
Mortgage-backed securities	973	2,188	
Investment securities	854	863	
Overnight investments	59	82	
Federal Home Loan Bank of Boston stock dividends	69	68	
	-----	-----	
Total interest and dividend income	12,658	13,577	
	-----	-----	
Interest expense:			
NOW accounts	333	240	
Money market accounts	27	36	
Savings accounts	922	1,286	
Certificate of deposit accounts	1,458	1,975	
Overnight and short-term borrowings	20	114	
Federal Home Loan Bank of Boston borrowings	1,803	1,880	
Company-obligated mandatorily redeemable capital securities	203	145	
	-----	-----	
Total interest expense	4,766	5,676	
	-----	-----	
Net interest income	7,892	7,901	
Provision for loan losses	400	575	
	-----	-----	
Net interest income after provision for loan losses	7,492	7,326	
	-----	-----	
Noninterest income:			
Service charges on deposit accounts	957	993	
Commissions on nondeposit investment products	220	349	
Income from bank-owned life insurance	171	143	
Loan related fees	127	78	
Commissions on loans originated for others	128	78	
Gain on sale of mortgage-backed securities	--	--	
Gain on sale of investment securities	348	--	
Other income	283	155	

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

Total noninterest income	2,234	1,796	
Noninterest expense:			
Salaries and employee benefits	3,697	3,376	
Occupancy	595	485	
Equipment	389	288	
Data processing	599	500	
Marketing	235	215	
Professional services	289	330	
Loan servicing	270	216	
Other real estate owned expense	33	(3)	
Other expenses	930	827	
Total noninterest expense	7,037	6,234	
Income before income taxes	2,689	2,888	
Income tax expense	904	957	
Net income	\$ 1,785	\$ 1,931	\$
Per share data:			
Basic earnings per common share	\$ 0.47	\$ 0.51	\$
Diluted earnings per common share	\$ 0.44	\$ 0.48	\$
Average common shares outstanding - basic	3,830,461	3,765,585	3,7
Average common shares outstanding - diluted	4,084,174	3,988,321	4,0

See accompanying notes to consolidated financial statements

4

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

Nine months ended September 30,	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income, Net
	-----	-----	-----	-----
	(In thousands)			
2003				
-----				
Balance at December 31, 2002	\$38	\$40,134	\$24,002	\$2,253
Net income	--	--	5,219	--
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale, net of taxes of \$315				(612)
Realized gains on				

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

securities available for sale, net of taxes of \$267				(518)
Comprehensive income				
Exercise of stock options	--	415	--	--
Exercise of stock warrants	1	662	--	--
Common stock issued for incentive stock award, net	--	26	--	--
Dividends on common stock	--	--	(1,598)	--
	---	-----	-----	-----
Balance at September 30, 2003	\$39	\$41,237	\$27,623	\$1,123
	===	=====	=====	=====
2002				
----				
Balance at December 31, 2001	\$37	\$39,826	\$18,336	\$ 898
Net income	--	--	5,734	--
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale, net of taxes of \$650				1,262
Realized gains on securities available for sale, net of taxes of \$8				(15)
Comprehensive income				
Proceeds from exercise of options	1	263	--	--
Common stock issued for incentive stock award, net	--	24	--	--
Dividends on common stock	--	--	(1,467)	--
	---	-----	-----	-----
Balance at September 30, 2002	\$38	\$40,113	\$22,603	\$2,145
	===	=====	=====	=====

See accompanying notes to consolidated financial statements

5

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Cash Flows

	Nine Months E September 3	
	-----	
	2003	
	----	
	(In thousand)	
Cash flows from operating activities:		
Net income	\$	5,219
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization		3,512
Provision for loan losses		1,200

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

Gain on investment securities	(681)	
Gain on mortgage-backed securities	(104)	
Gain on sale of other real estate owned	(15)	
Income from bank-owned life insurance	(579)	
Compensation expense from restricted stock grant	26	
(Increase) decrease in:		
Accrued interest receivable	557	
Prepaid expenses and other assets	(447)	
Increase (decrease) in:		
Other liabilities	(329)	
Other, net	75	
		-----
Net cash provided (used) by operating activities	8,434	-----
		-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(22,645)	
Commercial loans	(72,065)	
Consumer loans	(41,719)	
Purchase of:		
Investment securities available for sale	(53,844)	
Mortgage-backed securities available for sale	(62,812)	
Residential mortgage loans	(217,473)	
Federal Home Loan Bank of Boston stock	(1,251)	
Principal payments on:		
Investment securities available for sale	54,085	
Mortgage-backed securities available for sale	88,269	
Residential mortgage loans	170,479	
Commercial loans	34,507	
Consumer loans	28,618	
Proceeds from sale of investment securities	22,788	
Proceeds from sale of mortgage-backed securities	25,164	
Proceeds from sale of other real estate owned	56	
Capital expenditures for premises and equipment	(3,890)	
Purchase of bank-owned life insurance	--	
		-----
Net cash provided (used) by investing activities	(51,733)	-----
		-----
Cash flows from financing activities:		
Net increase in deposits	38,501	
Net increase (decrease) in overnight and short-term borrowings	(14,671)	
Proceeds from long-term borrowings	99,750	
Repayment of long-term borrowings	(61,959)	
Proceeds from exercise of stock options and warrants	1,078	
Dividends on common stock	(1,598)	
		-----
Net cash provided (used) by financing activities	61,101	-----
		-----
Net increase (decrease) in cash and cash equivalents	17,802	
Cash and cash equivalents at beginning of period	42,959	
		-----
Cash and cash equivalents at end of period	\$ 60,761	\$
	=====	==
Supplementary Disclosures:		
Cash paid for interest	\$ 15,026	\$
Cash paid for income taxes	2,367	
Non-cash transactions:		
Change in other comprehensive income, net of taxes	(1,130)	

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

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.

The consolidated financial statements include the accounts of the Company and its wholly-owned direct subsidiaries, the Bank, BRI Statutory Trusts I, II and III (issuers of trust preferred securities), and its indirect subsidiaries, BRI Investment Corp. (a Rhode Island passive investment company), BRI Realty Corp. (a real estate holding company), BRI Community Investment Corp. (a community development entity) and Acorn Insurance Agency, Inc. (a licensed insurance agency). 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) Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and



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

impact income, are considered critical accounting policies. Management has discussed the development and the selection of critical accounting policies with the Audit Committee of our Board of Directors. As discussed in our 2002 Annual Report on Form 10-K, we have identified the allowance for loan losses and review of goodwill for impairment as critical accounting policies. There have been no significant changes in the methods or assumptions used in the accounting policies that require material estimates and assumptions.

7

### (3) 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.

### (4) Recent Accounting Developments

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.

The following table summarizes the differences between the fair value and intrinsic value methods of accounting for stock-based compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	----	----	----	----
Net income (in thousands):				
As reported	\$1,785	\$1,931	\$5,219	\$5,734
Compensation cost, net of taxes (1)	(47)	(40)	(142)	(119)
	-----	-----	-----	-----
Pro forma	\$1,738	\$1,891	\$5,077	\$5,615
	=====	=====	=====	=====

Earnings per common share:

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

Basic:				
As reported	\$ 0.47	\$ 0.51	\$ 1.37	\$ 1.53
Compensation cost, net of taxes (1)	(0.01)	(0.01)	(0.04)	(0.03)
	-----	-----	-----	-----
Pro forma	\$ 0.46	\$ 0.50	\$ 1.33	\$ 1.50
	=====	=====	=====	=====
Diluted:				
As reported	\$ 0.44	\$ 0.48	\$ 1.29	\$ 1.44
Compensation cost, net of taxes (1)	(0.01)	(0.01)	(0.04)	(0.03)
	-----	-----	-----	-----
Pro forma	\$ 0.43	\$ 0.47	\$ 1.25	\$ 1.41
	=====	=====	=====	=====