

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

BANCORP RHODE ISLAND INC  
Form 10-Q  
May 13, 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: March 31, 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 by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No ( X )

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of May 9, 2003:

Common Stock - Par Value \$0.01	3,790,850 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 - 18
Item 3	Quantitative and Qualitative Disclosures About Market Risk	19 - 20
PART II - OTHER INFORMATION		
Item 1	Legal Proceedings	21
Item 2	Changes in Securities	21
Item 3	Default upon Senior Securities	21
Item 4	Submission of Matters to a Vote of Security Holders	21
Item 5	Other Information	21
Item 6	Exhibits and Reports on Form 8-K	21
	Signature Page	22
	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act	23 - 24

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

	March 31, 2003	Decem 2
	-----	-----
	(In thousand)	
<b>ASSETS:</b>		
Cash and due from banks	\$ 24,350	\$
Overnight investments	7,900	
Investment securities available for sale (amortized cost of \$96,274 and \$99,803 at March 31, 2003 and December 31, 2002, respectively)	97,501	1
Mortgage-backed securities available for sale (amortized cost of \$139,920 and \$154,225 at March 31, 2003 and December 31, 2002, respectively)	141,711	1
Stock in Federal Home Loan Bank of Boston	7,900	
Loans receivable:		
Residential mortgage loans	304,389	2
Commercial loans	298,612	2
Consumer and other loans	101,374	
	-----	
Total loans	704,375	6
Less allowance for loan losses	(10,435)	(
	-----	
Net loans	693,940	6
Premises and equipment, net	11,296	
Other real estate owned	31	
Goodwill, net	10,766	
Accrued interest receivable	6,084	
Investment in bank owned life insurance	14,972	
Prepaid expenses and other assets	3,291	
	-----	
Total assets	\$1,019,742	\$1,0
	=====	
<b>LIABILITIES:</b>		
Deposits:		
Demand deposit accounts	\$ 135,639	\$ 1
NOW accounts	106,259	1
Money market accounts	11,187	
Savings accounts	297,340	2
Certificate of deposit accounts	212,527	2
	-----	
Total deposits	762,952	7
Overnight and short-term borrowings	18,691	
Federal Home Loan Bank of Boston borrowings	157,997	1
Company-obligated mandatorily redeemable capital securities	8,000	
Other liabilities	4,653	
	-----	
Total liabilities	952,293	9
	-----	
<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, authorized 11,000,000 shares:		
Voting: Issued and outstanding 3,790,850 shares 2003 and 3,777,450 shares in 2002		38
Additional paid-in capital	40,276	
Retained earnings	25,143	
Accumulated other comprehensive income (loss), net	1,992	
	-----	
Total shareholders' equity	67,449	
	-----	
Total liabilities and shareholders' equity	\$1,019,742	\$1,0

See accompanying notes to consolidated financial statements

3

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Operations

	Three Months Ended March 31,	
	2003	2002
	(In thousands, except per share data)	
Interest and dividend income:		
Residential mortgage loans	\$ 4,174	\$ 4,927
Commercial loans	4,683	4,288
Consumer and other loans	1,289	939
Mortgage-backed securities	1,480	2,100
Investment securities	1,139	708
Overnight investments	39	73
Federal Home Loan Bank of Boston stock dividends	62	62
	-----	-----
Total interest and dividend income	12,866	13,097
	-----	-----
Interest expense:		
NOW accounts	326	42
Money market accounts	28	35
Savings accounts	1,148	1,217
Certificate of deposit accounts	1,600	2,289
Overnight and short-term borrowings	51	59
Federal Home Loan Bank of Boston borrowings	1,762	1,762
Company-obligated mandatorily redeemable capital securities	137	76
	-----	-----
Total interest expense	5,052	5,480
	-----	-----
Net interest income	7,814	7,617
Provision for loan losses	400	400
	-----	-----
Net interest income after provision for loan losses	7,414	7,217
	-----	-----
Noninterest income:		
Service charges on deposit accounts	952	855
Commissions on nondeposit investment products	174	249
Income from bank owned life insurance	203	95
Loan related fees	104	91
Commissions on loans originated for others	109	94
Gains on sales of mortgage-backed securities	104	23
Gains on sales of investment securities	54	--
Other income	216	159

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

Total noninterest income	1,916	1,566
Noninterest expense:		
Salaries and employee benefits	3,298	3,047
Occupancy	603	467
Equipment	336	249
Data processing	845	440
Marketing	297	296
Professional services	277	382
Loan servicing	228	223
Other real estate owned expense	15	(9)
Other expenses	974	762
Total noninterest expense	6,873	5,857
Income before income taxes	2,457	2,926
Income tax expense	785	1,032
Net income	\$ 1,672	\$ 1,894
Per share data:		
Basic earnings per common share	\$ 0.44	\$ 0.51
Diluted earnings per common share	\$ 0.42	\$ 0.48
Average common shares outstanding - basic	3,779,007	3,747,171
Average common shares outstanding - diluted	4,021,127	3,977,319

See accompanying notes to consolidated financial statements

4

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

Three months ended March 31,	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss), Net	Total
2003					
Balance at December 31, 2002	\$38	\$40,134	\$24,002	\$ 2,253	\$66,4
Net income	--	--	1,672	--	1,6
Other comprehensive income, net of tax:					
Unrealized gain (loss) on securities available for sale				(364)	(3
Realized gain (loss) on securities available for sale net of taxes of \$55				103	1

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

Comprehensive income					1,4
Exercise of stock options	--	134	--	--	1
Common stock issued for incentive stock award, net	--	8	--	--	
Dividends on common stock	--	--	(531)	--	(5
Balance at March 31, 2003	\$38	\$40,276	\$25,143	\$ 1,992	\$67,4
-----					
2002					
-----					
Balance at December 31, 2001	\$37	\$39,826	\$18,336	\$ 898	\$59,0
Net income	--	--	1,894	--	1,8
Other comprehensive income, net of tax:					
Unrealized gain (loss) on securities available for sale				(1,080)	(1,0
Realized gain (loss) on securities available for sale net of taxes of \$8				(15)	(
Comprehensive income					7
Exercise of stock options	1	43	--	--	
Common stock issued for incentive stock award, net	--	8	--	--	
Dividends on common stock	--	--	(488)	--	(4
Balance at March 31, 2002	\$38	\$39,877	\$19,742	\$ (197)	\$59,4
=====					

See accompanying notes to consolidated financial statements

5

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2003	2002
	----- (In thousands) -----	
Cash flows from operating activities:		
Net income	\$ 1,672	\$ 1,894
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	922	637
Provision for loan losses	400	400
Gain on sale of investment securities	(54)	--
Gain on sale of mortgage-backed securities	(104)	(23)
Gain on sale of other real estate owned	10	(29)

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

Income from bank-owned life insurance	(204)	(95)
Compensation expense from restricted stock grant	8	8
(Increase) decrease in:		
Accrued interest receivable	99	(535)
Prepaid expenses and other assets	(403)	(2,133)
Increase (decrease) in:		
Other liabilities	(581)	2,364
Other, net	4	43
	-----	-----
Net cash provided (used) by operating activities	1,769	2,531
	-----	-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(6,032)	(1,761)
Commercial loans	(24,597)	(21,311)
Consumer loans	(17,725)	(7,122)
Purchase of:		
Investment securities available for sale	(16,573)	(17,984)
Mortgage-backed securities available for sale	(33,640)	(55,820)
Residential mortgage loans	(50,081)	(34,462)
Federal Home Loan Bank of Boston stock	(217)	(2,015)
Principal payments on:		
Investment securities available for sale	18,000	3,006
Mortgage-backed securities available for sale	22,645	16,154
Residential mortgage loans	49,313	51,486
Commercial loans	6,982	18,514
Consumer loans	8,166	6,612
Proceeds from sale of investment securities	2,060	--
Proceeds from sale of mortgage-backed securities	25,164	3,766
Proceeds from sale of other real estate owned	--	293
Capital expenditures for premises and equipment	(1,970)	(287)
Purchase of bank-owned life insurance	--	(10,000)
	-----	-----
Net cash provided (used) by investing activities	(18,505)	(50,931)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in deposits	1,041	22,265
Net increase (decrease) in overnight and short-term borrowings	(8,673)	5,245
Proceeds from long-term borrowings	29,000	40,295
Repayment of long-term borrowings	(14,944)	(2,004)
Proceeds from issuance of common stock	134	44
Dividends on common stock	(531)	(488)
	-----	-----
Net cash provided (used) by financing activities	6,027	65,357
	-----	-----
Net increase (decrease) in cash and cash equivalents	(10,709)	16,957
Cash and cash equivalents at beginning of period	42,959	29,174
	-----	-----
Cash and cash equivalents at end of period	\$ 32,250	\$ 46,131
	=====	=====
Supplementary Disclosures:		
Cash paid for interest	\$ 5,244	\$ 5,595
Cash paid for income taxes	27	45
Non-cash transactions:		
Change in other comprehensive income, net of taxes	(261)	(1,095)

## 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 Trust I and BRI Statutory Trust II (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) 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) 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.

7

## (3) 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 March 31,	
	2003	2002
	-----	-----
Net income (in thousands):		
As reported	\$1,672	\$1,894
Compensation cost, net of taxes (1)	(23)	(40)
	-----	-----
Pro forma	\$1,649	\$1,854
	=====	=====
Earnings per common share:		
Basic:		
As reported	\$ 0.44	\$ 0.51
Compensation cost, net of taxes (1)	(0.00)	(0.02)
	-----	-----
Pro forma	\$ 0.44	\$ 0.49
	=====	=====
Diluted:		
As reported	\$ 0.42	\$ 0.48
Compensation cost, net of taxes (1)	(0.01)	(0.01)
	-----	-----
Pro forma	\$ 0.41	\$ 0.47
	=====	=====