

BANCORP RHODE ISLAND INC
Form 10-Q
May 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-Q

(Quarterly Report Under Section 13 of the Securities Exchange Act of 1934)

For the quarter ended: **March 31, 2008**

Commission File No. 001-16101

BANCORP RHODE ISLAND, INC.
(Exact Name of Registrant as Specified in Its Charter)

Rhode Island
(State or Other Jurisdiction of
Incorporation or Organization)

05-0509802
(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 or 15(d) 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of May 1, 2008:

| | |
|---|--|
| <u>Common Stock - Par Value \$0.01</u> (class) | <u>4,554,485 shares</u> (outstanding) |
|---|--|

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Bancorp Rhode Island, Inc.
Quarterly Report on Form 10-Q
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Special Note Regarding Forward Looking Statements

We make certain forward looking statements in this Quarterly Report on Form 10-Q and in other documents that we incorporate by reference into this report that are based upon our current expectations and projections about future events. We intend these forward looking statements to be covered by the safe harbor provisions for "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we are including this statement for purposes of these safe harbor provisions. You can identify these statements by reference to a future period or periods by our use of the words "estimate," "project," "may," "believe," "intend," "anticipate," "plan," "seek," "expect" and similar terms or variations of these terms.

Actual results may differ materially from those set forth in forward looking statements as a result of risks and uncertainties, including those detailed from time to time in our filings with the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). Our forward looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward looking statements.

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

| | March 31, 2008 | December 31, 2007 |
|---|-------------------|----------------------|
| (In thousands) | | |
| ASSETS: | | |
| Cash and due from banks | \$ 25,462 | \$ 20,465 |
| Overnight investments | 33,107 | 17,097 |
| | <hr/> | <hr/> |
| Total cash and cash equivalents | 58,569 | 37,562 |
| Investment securities available for sale (amortized cost of \$65,974 and \$77,193, respectively) | 65,894 | 76,986 |
| Mortgage-backed securities available for sale (amortized cost of \$275,196 and \$258,094, respectively) | 276,618 | 258,195 |
| | <hr/> | <hr/> |
| Total securities available for sale | 342,512 | 335,181 |
| Stock in Federal Home Loan Bank of Boston | 15,671 | 15,671 |
| Loans and leases receivable: | | |
| Commercial loans and leases | 576,954 | 573,668 |
| Residential mortgage loans | 236,543 | 248,728 |
| Consumer and other loans | 211,404 | 215,736 |
| | <hr/> | <hr/> |
| Total loans and leases receivable | 1,024,901 | 1,038,132 |
| Allowance for loan and lease losses | (12,593) | (12,619) |
| | <hr/> | <hr/> |
| Net loans and leases receivable | 1,012,308 | 1,025,513 |

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| | | |
|---|--------------|--------------|
| Premises and equipment, net | 13,377 | 13,721 |
| Goodwill, net | 12,019 | 11,772 |
| Accrued interest receivable | 5,661 | 6,557 |
| Investment in bank-owned life insurance | 24,441 | 24,186 |
| Prepaid expenses and other assets | 6,162 | 6,956 |
| | <hr/> | <hr/> |
| Total assets | \$ 1,490,720 | \$ 1,477,119 |
| | <hr/> | <hr/> |
| LIABILITIES: | | |
| Deposits: | | |
| Demand deposit accounts | \$ 179,883 | \$ 172,634 |
| NOW accounts | 61,706 | 65,191 |
| Money market accounts | 6,172 | 6,054 |
| Savings accounts | 410,796 | 396,838 |
| Certificate of deposit accounts | 379,673 | 374,063 |
| | <hr/> | <hr/> |
| Total deposits | 1,038,230 | 1,014,780 |
| Overnight and short-term borrowings | 48,944 | 66,795 |
| Wholesale repurchase agreements | 10,000 | 10,000 |
| Federal Home Loan Bank of Boston borrowings | 244,752 | 241,505 |
| Subordinated deferrable interest debentures | 13,403 | 13,403 |
| Other liabilities | 20,560 | 17,528 |
| | <hr/> | <hr/> |
| Total liabilities | 1,375,889 | 1,364,011 |
| | <hr/> | <hr/> |
| 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: 4,906,735 shares and 4,867,121 shares, respectively | 49 | 49 |
| Additional paid-in capital | 71,162 | 70,123 |
| Treasury stock, at cost (352,250 and 305,200 shares, respectively) | (12,055) | (10,189) |
| Retained earnings | 54,803 | 53,194 |
| Accumulated other comprehensive income (loss), net | 872 | (69) |
| | <hr/> | <hr/> |
| Total shareholders' equity | 114,831 | 113,108 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | \$ 1,490,720 | \$ 1,477,119 |
| | <hr/> | <hr/> |

See accompanying notes to unaudited consolidated financial statements

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BANCORP RHODE ISLAND, INC.

Consolidated Statements of Operations (unaudited)

| | Three Months Ended March 31, | |
|--|--|---------------|
| | 2008 | 2007 |
| | (In thousands, except per share data) | |
| Interest and dividend income: | | |
| Loans and leases | \$ 16,165 | \$ 16,332 |
| Available for sale securities | 3,933 | 4,202 |
| Federal Home Loan Bank of Boston stock dividends | 237 | 281 |
| Overnight investments | 197 | 287 |
| | <hr/> | <hr/> |
| Total interest and dividend income | 20,532 | 21,102 |
| | <hr/> | <hr/> |
| Interest expense: | | |
| Deposits | 6,692 | 7,051 |
| Overnight and short-term borrowings | 431 | 667 |
| Wholesale repurchase agreements | 135 | 196 |
| Federal Home Loan Bank of Boston borrowings | 2,720 | 2,591 |
| Subordinated deferrable interest debentures | 250 | 369 |
| | <hr/> | <hr/> |
| Total interest expense | 10,228 | 10,874 |
| | <hr/> | <hr/> |
| Net interest income | 10,304 | 10,228 |
| Provision for loan and lease losses | 285 | 100 |
| | <hr/> | <hr/> |
| Net interest income after provision for loan and lease losses | 10,019 | 10,128 |
| | <hr/> | <hr/> |
| Noninterest income: | | |
| Service charges on deposit accounts | 1,435 | 1,316 |
| Income from bank-owned life insurance | 255 | 251 |
| Gain on sale of available for sale securities | 242 | -- |
| Net gains on lease sales and commissions on loans originated for others | 219 | 387 |
| Commissions on nondeposit investment products | 210 | 120 |
| Loan related fees | 163 | 155 |
| Other income | 379 | 333 |
| | <hr/> | <hr/> |
| Total noninterest income | 2,903 | 2,562 |
| | <hr/> | <hr/> |
| Noninterest expense: | | |
| Salaries and employee benefits | 5,139 | 5,262 |
| Occupancy | 865 | 906 |

| | | |
|--|-----------------|-----------------|
| Data processing | 719 | 704 |
| Professional services | 635 | 652 |
| Marketing | 364 | 373 |
| Equipment | 308 | 333 |
| Loan servicing | 167 | 193 |
| Loan workout and other real estate owned | 156 | 9 |
| Other expenses | 1,107 | 1,079 |
| | <hr/> | <hr/> |
| Total noninterest expense | 9,460 | 9,511 |
| | <hr/> | <hr/> |
| Income before income taxes | 3,462 | 3,179 |
| Income tax expense | 1,136 | 1,001 |
| | <hr/> | <hr/> |
| Net income | \$ 2,326 | \$ 2,178 |
| | <hr/> | <hr/> |
| Weighted average common shares outstanding - basic | 4,557 | 4,815 |
| Weighted average common shares outstanding - diluted | 4,639 | 4,962 |
| Per share data: | | |
| Basic earnings per common share | \$ 0.51 | \$ 0.45 |
| Diluted earnings per common share | \$ 0.50 | \$ 0.44 |
| Cash dividends declared per common share | \$ 0.16 | \$ 0.15 |

See accompanying notes to unaudited consolidated financial statements

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

| Three months ended March 31, | Common Stock | Additional Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Compre- hensive Income (Loss) | Total |
|--|-----------------|----------------------------------|-------------------|----------------------|--|-----------|
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| (In thousands, except per share data) | | | | | | |
| <u>2007</u> | | | | | | |
| Balance at December 31, 2006 | \$48 | \$67,960 | \$ -- | \$47,091 | \$(3,014) | \$112,085 |
| Net income | -- | -- | -- | 2,178 | -- | 2,178 |
| Other comprehensive income: | | | | | | |
| Unrealized holding gains on securities available for sale, | | | | | 765 | 765 |

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| | | | | | | |
|--|------|----------|------------|----------|-----------|-----------|
| net of taxes of \$(411) | | | | | | |
| Total comprehensive income | | | | | | 2,943 |
| Exercise of stock options | -- | 785 | -- | -- | -- | 785 |
| Stock repurchase | -- | -- | (223) | -- | -- | (223) |
| Share-based compensation | -- | 38 | -- | -- | -- | 38 |
| Tax benefit from exercise of stock options | -- | 453 | -- | -- | -- | 453 |
| Dividends on common stock (\$ 0.15 per common share) | -- | -- | -- | (724) | -- | (724) |
| Balance at March 31, 2007 | \$48 | \$69,236 | \$ (223) | \$48,545 | \$(2,249) | \$115,357 |
| <u>2008</u> | | | | | | |
| Balance at December 31, 2007 | \$49 | \$70,123 | \$(10,189) | \$53,194 | \$ (69) | \$113,108 |
| Net income | -- | -- | -- | 2,326 | -- | 2,326 |
| Other comprehensive income: | | | | | | |
| Unrealized holding gains on securities available for sale, net of taxes of \$(592) | | | | | 1,098 | 1,098 |
| Reclassification adjustment, net of taxes of \$85 | | | | | (157) | (157) |
| Total comprehensive income | | | | | | 3,267 |
| Exercise of stock options | -- | 431 | -- | -- | -- | 431 |
| Macrolease acquisition | -- | 362 | -- | -- | -- | 362 |
| Stock repurchase | -- | -- | (1,866) | -- | -- | (1,866) |
| Share-based compensation | -- | 68 | -- | -- | -- | 68 |
| Tax benefit from exercise of stock options | -- | 178 | -- | -- | -- | 178 |
| Dividends on common stock (\$ 0.16 per common share) | -- | -- | -- | (717) | -- | (717) |
| Balance at March 31, 2008 | \$49 | \$71,162 | \$(12,055) | \$54,803 | \$ 872 | \$114,831 |

See accompanying notes to unaudited consolidated financial statements

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

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2008 | 2007 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 2,326 | \$ 2,178 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation, amortization and accretion, net | (576) | (164) |
| Provision for loan and lease losses | 285 | 100 |
| Income from bank-owned life insurance | (255) | (251) |
| Share-based compensation | 68 | 38 |
| Net gains on lease sales | (173) | (341) |
| Gain on sale of available for sale securities, net | (242) | -- |
| Proceeds from sales of leases | 5,483 | 8,198 |
| Leases originated for sale | (3,763) | (7,857) |
| (Increase) decrease in accrued interest receivable | 896 | (155) |
| Decrease in prepaid expenses and other assets | 288 | 827 |
| Increase (decrease) in other liabilities | (1,853) | 3,358 |
| Other, net | (20) | 6 |
| | 2,464 | 5,937 |
| Cash flows from investing activities: | | |
| Investment securities available for sale: | | |
| Purchases | (20,000) | (24,992) |
| Maturities and principal repayments | 36,215 | 8,006 |
| Mortgage-backed securities available for sale: | | |
| Purchases | (41,072) | -- |
| Maturities and principal repayments | 11,109 | 11,339 |
| Proceeds from sales | 13,109 | -- |
| Net decrease in loans and leases | 12,407 | 11,506 |
| Purchases of loans and leases, including purchased interest | -- | (13,979) |
| Proceeds from sale of Federal Home Loan Bank of Boston stock | -- | 859 |
| Capital expenditures for premises and equipment | (131) | (1,580) |
| Proceeds from sale of premises and equipment | 34 | -- |
| | 11,671 | (8,841) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 23,450 | 12,189 |
| Net decrease in overnight and short-term borrowings | (17,851) | (4,739) |

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| | | |
|---|------------------|------------------|
| Proceeds from long-term borrowings | 10,000 | 30,000 |
| Repayment of long-term borrowings | (6,753) | (40,022) |
| Exercise of stock options | 431 | 785 |
| Repurchase of common stock | (1,866) | (223) |
| Tax benefit from exercise of stock options | 178 | 453 |
| Dividends on common stock | (717) | (724) |
| | <u>6,872</u> | <u>(2,281)</u> |
| Net cash provided by (used in) financing activities | 6,872 | (2,281) |
| | <u>21,007</u> | <u>(5,185)</u> |
| Net increase (decrease) in cash and cash equivalents | 21,007 | (5,185) |
| Cash and cash equivalents at beginning of period | 37,562 | 61,764 |
| | <u>\$ 58,569</u> | <u>\$ 56,579</u> |
| Cash and cash equivalents at end of period | \$ 58,569 | \$ 56,579 |
| Supplementary Disclosures: | | |
| Cash paid for interest | \$ 10,932 | \$ 11,725 |
| Cash paid for income taxes | 1,205 | 12 |
| Non-cash transactions: | | |
| Purchase of investment securities not yet settled | 5,000 | -- |
| Change in accumulated other comprehensive income, net of taxes | 941 | 765 |
| Transfer of leases held for sale to loans and leases receivable | 474 | -- |
| Macrolease acquisition | 247 | -- |

See accompanying notes to unaudited consolidated financial statements

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BANCORP RHODE ISLAND, INC.
Notes to Consolidated Financial Statements (unaudited)

(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 this reason, substantially all of the discussion in this Quarterly Report on Form 10-Q relates to the operations of the Bank and its subsidiaries.

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 credit losses, review of goodwill for impairment and income taxes.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bank Rhode Island, along with the Bank's wholly-owned subsidiaries, BRI Investment Corp. (a Rhode Island passive investment company), BRI Realty Corp. (a Rhode Island real estate holding company), Acorn Insurance Agency, Inc. (a licensed insurance agency) and Macrolease Corporation (an equipment leasing company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited interim consolidated financial statements of the Company conform to U.S. generally accepted accounting principles 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. Certain prior period amounts have been reclassified to conform to the current year classification. Such reclassifications have no effect on previously reported net income or shareholders' equity.

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 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

(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 or converted into common stock or resulted in the issuance of additional common stock that then share in the earnings of the Company.

(3) Supplemental Executive Retirement Plans

The Bank maintains Supplemental Executive Retirement Plans ("SERPs") for certain of its senior officers under which participants designated by the Board of Directors are entitled to an annual retirement benefit. Expenses associated with the SERPs were \$169,000 and \$143,000 for the three months ending March 31, 2008 and 2007, respectively. Accrued liabilities associated with the SERPs were \$2.9 million and \$2.8 million for March 31, 2008 and December 31, 2007, respectively.

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(4) Recently Adopted Accounting Pronouncements

In March 2006, the FASB Emerging Issues Task Force ("EITF") issued interpretive guidance in Issue 06-4 ("EITF 06-4"), in which agreements by companies to share a portion of the proceeds of life insurance policies with an employee during the postretirement period is a postretirement benefit arrangement that must be accounted for under SFAS 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions."* Under EITF 06-4, the EITF also concluded the purchase of a split-dollar life insurance policy does not constitute a settlement of the postretirement benefit as defined in SFAS 106. Thus, companies are required to record an accrual for this postretirement benefit upon adoption of EITF 06-4. The adoption of EITF 06-4 on January 1, 2008 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), *"Fair Value Measurements."* SFAS 157 provides guidance for measuring assets and liabilities at fair value. In February 2008, the FASB issued Staff Position ("FSP") 157-2, *"Effective Date of FASB Statement No. 157."* This FSP delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The adoption of SFAS 157 on January 1, 2008 did not have a material impact on the Company's consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to

sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact and willing to transact.

SFAS 157 requires the use of valuation t