

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

BANCORP RHODE ISLAND INC
Form 10-Q
May 09, 2006

=====

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, 2006

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 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, or a non-accelerated filer, as defined in Section 12b-2 of the Exchange Act of 1934.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of May 1, 2006:

Common Stock - Par Value \$0.01

4,760,171 shares

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

(class)

(outstanding)

1

Bancorp Rhode Island, Inc.
Quarterly Report on Form 10-Q
Table of Contents

Description	Page Number
Cover Page	1
Table of Contents	2
Part I - Financial Information	
Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Condensed Notes to Consolidated Financial Statements	7-10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11-26
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27-28
Item 4. Controls and Procedures	28
Part II - Other Information	
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	29
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3. Defaults Upon Senior Securities	29
Item 4. Submission of Matters to a Vote of Security Holders	29
Item 5. Other Information	29
Item 6. Exhibits	29
Signature Page	30

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 current 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 Securities and Exchange

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

Commission. Our forward looking statements do not reflect the potential impact of any future acquisition, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward looking statements.

2

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

	March 31, 2006	December 31, 2005
	-----	-----
	(In thousands)	
ASSETS:		
Cash and due from banks	\$ 22,857	\$ 30,177
Overnight investments	3,723	10,370
Total cash and cash equivalents	26,580	40,547
Investment securities available for sale (amortized cost of \$161,290 and \$153,328 at March 31, 2006 and December 31, 2005, respectively)	158,369	150,959
Mortgage-backed securities available for sale (amortized cost of \$226,804 and \$237,449 at March 31, 2006 and December 31, 2005, respectively)	221,225	234,858
Total securities available for sale	379,594	385,817
Stock in Federal Home Loan Bank of Boston	16,530	16,062
Loans and leases receivable:		
Commercial loans and leases	441,521	438,309
Residential mortgage loans	302,344	306,016
Consumer and other loans	213,543	206,481
Total loans and leases receivable	957,408	950,806
Less allowance for loan and lease losses	(12,282)	(12,168)
Net loans and leases receivable	945,126	938,638
Premises and equipment, net	15,263	14,858
Goodwill	11,234	11,234
Accrued interest receivable	7,144	6,965
Investment in bank-owned life insurance	20,111	18,824
Prepaid expenses and other assets	9,258	9,334
Total assets	\$1,430,840	\$1,442,279
LIABILITIES:		
Deposits:		
Demand deposit accounts	\$ 175,132	\$ 185,089
NOW accounts	78,791	89,594
Money market accounts	9,737	12,122
Savings accounts	344,134	341,115
Certificate of deposit accounts	348,339	353,049
Total deposits	956,133	980,969
Overnight and short-term borrowings	28,383	26,238
Wholesale repurchase agreements	20,000	20,000
Federal Home Loan Bank of Boston borrowings	293,378	279,973
Subordinated deferrable interest debentures	18,558	18,558
Other liabilities	10,036	11,709

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

Total liabilities	1,326,488	1,337,447
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 4,757,036 shares and 4,719,126 shares, respectively	48	47
Additional paid-in capital	66,777	65,768
Retained earnings	43,052	42,241
Accumulated other comprehensive loss, net	(5,525)	(3,224)
Total shareholders' equity	104,352	104,832
Total liabilities and shareholders' equity	\$1,430,840	\$1,442,279

See accompanying notes to consolidated financial statements

3

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

	Three Months Ended March 31,	
	2006	2005
	(Dollars and shares in thousands, except per share data)	
Interest and dividend income:		
Loans and leases	\$14,829	\$12,525
Mortgage-backed securities	4,325	3,034
Overnight investments	30	56
Federal Home Loan Bank of Boston stock dividends	211	130
Total interest and dividend income	19,395	15,745
Interest expense:		
Deposits	4,486	2,966
Overnight and short-term borrowings	315	115
Wholesale repurchase agreements	189	8
Federal Home Loan Bank of Boston borrowings	3,007	1,988
Subordinated deferrable interest debentures	348	297
Total interest expense	8,345	5,374
Net interest income	11,050	10,371
Provision for loan and lease losses	300	300
Net interest income after provision for loan and lease losses	10,750	10,071

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

Balance at December 31, 2004	\$40	\$42,852	\$35,373	\$ 658	\$ 7
Net income	--	--	2,407	--	--
Other comprehensive loss, net of tax:					
Unrealized holding losses on securities available for sale, net of taxes of \$1,631				(3,042)	(
Reclassification adjustment, net of taxes of \$(3)				5	---
Total comprehensive loss					
Exercise of stock options	--	90	--	--	
Share-based compensation	--	9	--	--	
Dividends on common stock (\$ 0.15 per common share)	--	--	(602)	--	
Balance at March 31, 2005	\$40	\$42,951	\$37,178	\$ (2,379)	\$ 7
2006					
Balance at December 31, 2005	\$47	\$65,768	\$42,241	\$ (3,224)	\$10
Net income	--	--	1,525	--	
Other comprehensive loss, net of tax:					
Unrealized holding losses on securities available for sale, net of taxes of \$1,239				(2,301)	(
Total comprehensive loss					
Exercise of stock options	1	1,003	--	--	
Share-based compensation	--	6	--	--	
Dividends on common stock (\$ 0.15 per common share)	--	--	(714)	--	
Balance at March 31, 2006	\$48	\$66,777	\$43,052	\$ (5,525)	\$10

See accompanying notes to consolidated financial statements

5

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

Three Months Ended March 31,	
2006	2005

(In thousands)	

Cash flows from operating activities:

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

Net income	\$ 1,525	\$ 2,407
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	255	701
Provision for loan and lease losses	300	300
Gain on sale of investment securities	--	--
Gain on sale of mortgage-backed securities	--	8
Income from bank-owned life insurance	(179)	(172)
Share-based compensation	6	9
(Increase) decrease in:		
Accrued interest receivable	(179)	(580)
Prepaid expenses and other assets	1,315	(667)
Increase (decrease) in:		
Other liabilities	(1,673)	(46)
Other, net	6	6
Net cash provided by operating activities	1,376	1,966
Cash flows from investing activities:		
Investment securities available for sale:		
Purchases	(8,000)	(27,933)
Mortgage-backed securities available for sale:		
Purchases	--	(38,929)
Maturities and principal repayments	10,617	8,686
Proceeds from sales	--	3,423
Net increase in loans and leases	1,100	2,045
Purchases of loans and leases, including purchased interest	(7,502)	(22,230)
Purchase of Federal Home Loan Bank of Boston stock	(468)	(614)
Purchases of premises and equipment	(986)	(817)
Purchase of bank-owned life insurance	(1,108)	--
Net cash used by investing activities	(6,347)	(76,369)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(24,836)	20,427
Net increase in overnight and short-term borrowings	2,145	6,205
Proceeds from long-term borrowings	100,000	79,880
Repayment of long-term borrowings	(86,595)	(36,021)
Exercise of stock options	1,004	90
Dividends on common stock	(714)	(602)
Net cash (used) provided by financing activities	(8,996)	69,979
Net decrease in cash and cash equivalents	(13,967)	(4,424)
Cash and cash equivalents at beginning of period	40,547	35,679
Cash and cash equivalents at end of period	\$ 26,580	\$ 31,255
Supplementary Disclosures:		
Cash paid for interest	\$ 8,352	\$ 5,203
Cash paid for income taxes	20	432
Non-cash transactions:		
Change in accumulated other comprehensive loss, net	(2,301)	(3,037)

See accompanying notes to consolidated financial statements

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

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.

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 and lease losses and review of goodwill for impairment.

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 have been prepared in accordance with 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 2005 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 and resulted in the issuance of additional common stock that then shared in the earnings of the Company.

(3) Share-Based Compensation

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

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123-R, "Share-Based Payment", which is a revision to SFAS 123, "Accounting for Stock-Based Compensation". SFAS 123-R focuses primarily on accounting for share-based payments made to

7

employees. Under SFAS 123-R, the grant date fair value of share-based awards (primarily stock options for the Company) is recognized as an expense in the income statement, whereas under SFAS 123, the Company accounted for share-based awards under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25").

The Company adopted SFAS 123-R under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS 123-R are generally only applied to share-based awards granted subsequent to adoption and any unvested prior grants. Under SFAS 123-R, share-based awards requiring future service are recognized as compensation expense over the relevant service period. Share-based awards that do not require future service ("vested awards") are expensed immediately. SFAS 123-R also requires the Company to estimate expected forfeitures in determining compensation expense. Additionally, compensation expense for share-based awards granted to retirement-eligible employees is recognized immediately.

At the time of adoption of SFAS 123-R on January 1, 2006, all stock options granted to employees and directors were fully vested and exercisable. As a result, the transition impact of adopting SFAS 123-R was not material to the Company's results of operations for the quarter.

In December 2005, the Executive and Compensation Committees of the Company's Board of Directors accelerated the vesting of all 89,586 unvested stock options. No other changes were made to the terms and conditions of the options. The Company recorded expenses of \$49,000 in connection with the accelerated vesting. At the time of the vesting acceleration, approximately 79% of the expenses anticipated to be recorded over the next three years related to stock options that had no intrinsic value, as the stock options were "out-of-the-money". Additionally, 73% of the unvested options with a positive intrinsic value, or "in-the-money", were scheduled to fully vest within four months after December 31, 2005. As a result of this accelerated vesting, the Company will not be required to recognize anticipated non-cash compensation expense relating to stock options of approximately \$370,000 in 2006, \$260,000 in 2007 and \$70,000 in 2008.

Under SFAS 123, the Company did not recognize compensation expense for stock options issued prior to January 2006 because the stock options had no intrinsic value at grant date, as the exercise price equaled the market value of the Company's common stock on the grant date. The Company did recognize compensation expense related to restricted stock compensation during the first quarter of 2005. The relevant service period for this restricted stock award concluded in December 2005.

8

If the Company had recognized compensation expense for stock options over the relevant service period, generally 3 to 4 years under the fair value method proscribed by SFAS 123, net income would have decreased for the three months ended March 31, 2005, resulting in pro forma net income and

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

earnings per common share ("EPS") as summarized below:

	Three Months Ended March 31, 2005 -----
Net income (in thousands):	
As reported	\$2,407
Compensation cost, net of taxes	(38)

Pro forma	\$2,369
	=====
Earnings per common share:	
Basic:	
As reported	\$ 0.60
Pro forma	\$ 0.59
Diluted:	
As reported	\$ 0.57
Pro forma	\$ 0.56

Employee Stock Plans - The Company maintains a 1996 Incentive and Nonqualified Stock Option Plan and a 2002 Equity Incentive Plan (collectively the "Employee Stock Plans") under which it may grant awards of its Common Stock to officers and key employees. The total number of shares available for awards under the Employee Stock Plans is 760,000. The 2002 Equity Incentive Plan also provides for automatic incremental increases each year in the number of shares authorized for issuance under such plan on the date of the annual shareholders meeting equal to the least of (i) 2% of total issued and outstanding common stock on the date of the shareholders meeting, (ii) 75,000 shares and (iii) such lesser number as determined by the Board of Directors of the Company. The Employee Stock Plans allow grants of options, restricted stock, stock appreciation rights ("SARs"), performance shares or units and other stock-based awards. To date, the Company has only awarded options under the Employee Stock Plans, which have been granted at an exercise price equal to the market value of the stock on the date of the grant with vesting terms of generally three years. Unless exercised, options granted under the Employee Stock Plans have a 10-year contractual term. Certain stock option awards provide for accelerated vesting if there is a change in control (as defined in the Employee Stock Plans).

The fair value of each stock option award is estimated on the grant date using the Black-Scholes option-pricing model with the following pricing assumptions:

Three Months Ended	
March 31,	
2006	2005 (1)
----	-----

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

Expected life	6 years	--
Expected volatility	22%	--
Risk-free interest rate	4.59%	--
Dividends per share	\$0.60	--
Grant date fair value per share	\$8.69	--