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

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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

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(class)

(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 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

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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.

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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 |

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| | | |
|---|-------------|-------------|
| 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

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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 |

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| | | | | | |
|---|------|----------|----------|-----------|------|
| 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

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

| Three Months Ended March 31, | |
|---------------------------------|------|
| 2006 | 2005 |
| ----- | |
| (In thousands) | |

Cash flows from operating activities:

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| | | |
|--|-----------|-----------|
| 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

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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

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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

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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.

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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

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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) |
| ---- | ----- |

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| | | |
|---------------------------------|---------|----|
| 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 | -- |