BANCORP RHODE ISLAND INC
Form 10-Q
August 07, 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: June 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 August 5, 2003:

Common Stock - Par Value $0.01	3,836,965 shares
(class)	(outstanding)

BANCORP RHODE ISLAND, INC.

FORM 10-Q

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BANCORP RHODE ISLAND, INC.
Consolidated Balance Sheets

	June 30, 2003	December 31, 2002
	(Dollars in thousands)	
ASSETS:		
Cash and due from banks	$ 28,668	$ 25,336
Overnight investments	12,202	17,623
Total cash and cash equivalents	40,870	42,959
Investment securities available for sale (amortized cost of $81,207 and $99,803 at June 30, 2003 and December 31, 2002, respectively)	83,811	101,329
Mortgage-backed securities available for sale (amortized cost of $130,081 and $154,225 at June 30, 2003 and December 31, 2002, respectively)	131,319	156,114
Stock in Federal Home Loan Bank of Boston	8,934	7,683
Loans receivable:		
Residential mortgage loans	330,301	297,763
Commercial loans	314,017	280,967
Consumer and other loans	103,206	91,928
Total loans	747,524	670,658
Less allowance for loan losses	(10,831)	(10,096)
Net loans	736,693	660,562
Premises and equipment, net	11,991	9,702
Other real estate owned	--	58
Goodwill, net	10,766	10,766
Accrued interest receivable	5,686	6,183
Investment in bank-owned life insurance	15,176	14,768
Prepaid expenses and other assets	3,127	2,753
Total assets	$1,048,373	$1,012,877
LIABILITIES:		
Deposits:		
Demand deposit accounts	$ 146,290	$ 137,920
NOW accounts	116,628	100,476
Money market accounts	10,546	10,660
Savings accounts	299,247	290,981
Certificate of deposit accounts	210,226	221,874
Total deposits	782,937	761,911
Overnight and short-term borrowings	13,606	27,364
Federal Home Loan Bank of Boston borrowings	162,693	143,941
Company-obligated mandatorily redeemable capital securities	13,000	8,000
Other liabilities	6,803	5,234
Total liabilities	979,039	946,450
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 3,800,850 shares in 2003 and 3,777,450 in 2002	38	38
Additional paid-in capital	40,385	40,134
Retained earnings	26,375	24,002
Accumulated other comprehensive income, net	2,536	2,253
Total shareholders' equity	69,334	66,427
Total liabilities and shareholders' equity	$1,048,373	$1,012,877

See accompanying notes to consolidated financial statements

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BANCORP RHODE ISLAND, INC.
Consolidated Statements of Operations

	Three Months Ended June 30,		Six
	2003	2002	2003
	(Dollars in thousands, except per		
Interest and dividend income:			
Residential mortgage loans	$ 4,323	$ 4,845	$ 8,4
Commercial loans	4,830	4,443	9,5
Consumer and other loans	1,336	959	2,6
Mortgage-backed securities	1,332	2,348	2,8
Investment securities	992	821	2,1
Overnight investments	45	43	
Federal Home Loan Bank of Boston stock dividends	67	80	1
Total interest and dividend income	12,925	13,539	25,7
Interest expense:			
NOW accounts	344	86	6
Money market accounts	24	31	
Savings accounts	1,066	1,282	2,2
Certificate of deposit accounts	1,520	2,101	3,1
Overnight and short-term borrowings	38	53	
Federal Home Loan Bank of Boston borrowings	1,799	1,888	3,5
Company-obligated mandatorily redeemable capital securities	140	81	2
Total interest expense	4,931	5,522	9,9

Net interest income	7,994	8,017	15,8
Provision for loan losses	400	450	8
Net interest income after provision for loan losses	7,594	7,567	15,0
Noninterest income:			
Service charges on deposit accounts	1,043	912	1,9
Commissions on nondeposit investment products	232	173	4
Income from bank-owned life insurance	205	142	4
Loan related fees	339	82	4
Commissions on loans originated for others	94	58	2
Gain on sale of mortgage-backed securities	--	--	1
Gain on sale of investment securities	279	--	3
Other income	202	151	4
Total noninterest income	2,394	1,518	4,3
Noninterest expense:			
Salaries and employee benefits	3,746	3,207	7,0
Occupancy	587	496	1,1
Equipment	377	246	7
Data processing	801	485	1,6
Marketing	298	385	5
Professional services	385	416	6
Loan servicing	210	236	4
Other real estate owned expense	(14)	16	
Other expenses	955	759	1,9
Total noninterest expense	7,345	6,246	14,2
Income before income taxes	2,643	2,839	5,1
Income tax expense	881	930	1,6
Net income	$ 1,762	$ 1,909	$ 3,4
Per share data:			
Basic earnings per common share	$ 0.47	$ 0.51	$ 0.
Diluted earnings per common share	$ 0.43	$ 0.48	$ 0.
Average common shares outstanding - basic	3,787,881	3,751,054	3,783,4
Average common shares outstanding - diluted	4,053,902	4,012,159	4,036,6

See accompanying notes to consolidated financial statements

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

Accumulate

Six months ended June 30,	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income, Net
			(In thousands)	
2003				
Balance at December 31, 2002	$ 38	$40,134	$24,002	$ 2,253
Net income	--	--	3,434	--
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale, net of taxes of $305				567
Realized gains on securities available for sale, net of taxes of $153				(284)
Comprehensive income				
Exercise of stock options	--	134	--	--
Exercise of stock warrants	--	100	--	--
Common stock issued for incentive stock award, net	--	17	--	--
Dividends on common stock	--	--	(1,061)	--
Balance at June 30, 2003	$ 38	$40,385	$26,375	$ 2,536
2002				
Balance at December 31, 2001	$ 37	$39,826	$18,336	$ 898
Net income	--	--	3,803	--
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale, net of taxes of $132				257
Realized gains on securities available for sale, net of taxes of $8				(15)
Comprehensive income				
Proceeds from exercise of options	1	128	--	--
Common stock issued for incentive stock award, net	--	16	--	--
Dividends on common stock	--	--	(977)	--
Balance at June 30, 2002	$ 38	$39,970	$21,162	$ 1,140

See accompanying notes to consolidated financial statements

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 3,434	$ 3,803
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,063	1,210
Provision for loan losses	800	850
Gain on investment securities	(333)	--
Gain on mortgage-backed securities	(104)	(23)
Gain on sale of other real estate owned	(15)	(29)
Income from bank-owned life insurance	(408)	(237)
Compensation expense from restricted stock grant	17	16
(Increase) decrease in:		
Accrued interest receivable	497	(256)
Prepaid expenses and other assets	(519)	(2,342)
Increase (decrease) in:		
Other liabilities	1,569	930
Other, net	21	53
Net cash provided (used) by operating activities	7,022	3,975
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(12,144)	(4,915)
Commercial loans	(50,002)	(33,845)
Consumer loans	(28,581)	(12,313)
Purchase of:		
Investment securities available for sale	(27,826)	(41,074)
Mortgage-backed securities available for sale	(53,834)	(73,017)
Residential mortgage loans	(112,291)	(62,318)
Federal Home Loan Bank of Boston stock	(1,251)	(2,015)
Principal payments on:		
Investment securities available for sale	32,139	19,006
Mortgage-backed securities available for sale	52,325	30,359
Residential mortgage loans	91,519	85,614
Commercial loans	17,024	13,619
Consumer loans	17,102	8,949
Proceeds from sale of investment securities	14,394	--
Proceeds from sale of mortgage-backed securities	25,164	3,766
Proceeds from sale of other real estate owned	56	293
Capital expenditures for premises and equipment	(3,098)	(1,122)
Purchase of bank-owned life insurance	--	(10,000)
Net cash provided (used) by investing activities	(39,304)	(79,013)

Cash flows from financing activities:		
Net increase in deposits	21,026	30,776
Net increase (decrease) in overnight and short-term borrowings	(13,758)	4,970
Proceeds from long-term borrowings	79,750	45,351
Repayment of long-term borrowings	(55,998)	(2,914)
Proceeds from exercise of stock options and warrants	234	129
Dividends on common stock	(1,061)	(977)
Net cash provided (used) by financing activities	30,193	77,335
Net increase (decrease) in cash and cash equivalents	(2,089)	2,297
Cash and cash equivalents at beginning of period	42,959	29,174
Cash and cash equivalents at end of period	$ 40,870	$ 31,471
Supplementary Disclosures:		
Cash paid for interest	$ 10,150	$ 10,901
Cash paid for income taxes	2,162	2,582
Non-cash transactions:		
Change in other comprehensive income, net of taxes	283	242

See accompanying notes to consolidated financial statements

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) 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.

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(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 June 30,		Six Months Ended June 3	
	2003	2002	2003	2002

Net income (in thousands):				
As reported	$1,762	$1,909	$3,434	$3,803
Compensation cost, net of taxes (1)	(72)	(40)	(95)	(79)
Pro forma	$1,690	$1,869	$3,339	$3,724
Earnings per common share:				
Basic:				
As reported	$ 0.47	$ 0.51	$ 0.91	$ 1.01
Compensation cost, net of taxes (1)	(0.02)	(0.01)	(0.03)	(0.02)
Pro forma	$ 0.45	$ 0.50	$ 0.88	$ 0.99
Diluted:				
As reported	$ 0.43	$ 0.48	$ 0.85	$ 0.95
Compensation cost, net of taxes (1)	(0.01)	(0.01)	(0.02)	(0.02)
Pro forma	$ 0.42	$ 0.47	$ 0.83	$ 0.93