



## **Bancorp RI takes action to cut costs**

The company pushes up its schedule for vesting employee stock options.

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Bancorp Rhode Island has accelerated the vesting of employee stock options in a move expected to save the company about \$715,000 in compensation expenses.

The cost-savings measure comes as the Providence-based holding company for Bank Rhode Island faces an expected decline in earnings this year.

The company took the action days before a new accounting rule requiring public companies to record stock options as expenses took effect.

The action is similar to moves made by hundreds of companies over the last several months as they anticipated the new rule adopted by the federal Financial Accounting Standards Board that took effect Sunday. Not all companies decided to push up their vesting schedules and instead will record the expenses over time.

"There was an evaluation of which was the better route to go," said Marie T. van Luling, senior vice president for marketing and corporate communications. "This would be an attempt to reduce the expense, the compensation expense, that would have occurred."

Bancorp Rhode Island announced the accelerated vesting late Tuesday after a Dec. 29 vote on the issue by the company's compensation committee, with the concurrence of the executive committee.

The accelerated vesting allows the affected employees to exercise the options earlier than planned under the original grant. A stock option allows the holder to buy stock at a preset price. If the price of the underlying stock rises, the option holder profits from the difference between the exercise price and the market price.

Typically, the options do not vest -- or become available to the holders -- until after a specified waiting period.

Stock options have been a popular form of compensation for senior executives, particularly in technology start-ups. But critics argued that the options allowed companies to pad profits because until now companies were not required to count them as expenses.

According to Equilar Inc., a compensation-research firm, nearly 400 companies through late November had accelerated the vesting of options so they could avoid recording them as expenses this year and in future years. The firm said it expected the trend to accelerate in December as the Jan. 1 deadline

approached.

Among Rhode Island firms, satellite communications equipment maker [KVH](#) Industries of Middletown also announced it had accelerated the vesting of 271,000 options, but those options are currently worthless because of a decline in the company's stock price since they were granted.

Bancorp Rhode Island said the early vesting of nearly 90,000 options to employees will save the company an estimated \$715,000. Of that amount, \$375,000 would have to be recorded as expenses this year, the company said. The early vesting will result in a one-time expense of \$50,000 for 2005, it said.

On Dec. 21, Bancorp Rhode Island chief executive officer Merrill W. Sherman disclosed to investors that the company expects earnings to fall this year as it copes with a narrowing spread between short- and long-term interest rates that will squeeze bank profit margins.

The company estimated that it will earn \$2 to \$2.04 a share for 2005 and just \$1.77 to \$1.81 a share this year.

As a result, Sherman said the company will delay the opening of two new branches -- in Pawtucket and Narragansett -- from this year until next year.

She said the company is monitoring the impact of "a situation that could result in an impairment charge related to the unauthorized actions of a former employee." At most, the situation cited could cost the company \$1.4 million, she said.

Bancorp Rhode Island shares are down 5 percent since the Dec. 21 announcement of the reduced earnings forecast. Yesterday, the stock closed at \$33.03, down 27 cents on the day.

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