

SI Financial Group, Inc.
Form 10-Q
November 15, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2010

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____

Commission File Number: 0-50801

SI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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United States (State or other jurisdiction of incorporation or organization)	84-1655232 (I.R.S. Employer Identification No.)
803 Main Street, Willimantic, Connecticut (Address of principal executive offices)	06226 (Zip Code)
(860) 423-4581 (Registrant'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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

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

As of November 5, 2010, there were 11,777,496 shares of the registrant's common stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****SI FINANCIAL GROUP, INC.****CONSOLIDATED BALANCE SHEETS***(Dollars in Thousands, Except Share Amounts/Unaudited)*

	September 30, 2010	December 31, 2009
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	\$ 11,755	\$ 12,889
Interest-bearing	4,508	2,350
Federal funds sold	35,595	8,965
Total cash and cash equivalents	51,858	24,204
Trading securities, at fair value	526	
Available for sale securities, at fair value	173,248	183,562
Loans held for sale	7,093	396
Loans receivable (net of allowance for loan losses of \$4,996 at September 30, 2010 and \$4,891 at December 31, 2009)	604,609	607,692
Federal Home Loan Bank stock, at cost	8,388	8,388
Bank-owned life insurance	8,950	8,734
Premises and equipment, net	12,184	12,966
Goodwill and other intangibles	4,171	4,195
Accrued interest receivable	3,293	3,341
Deferred tax asset, net	5,272	6,078
Other real estate owned	2,256	3,680
Prepaid FDIC deposit insurance assessment	2,815	3,549
Other assets	5,655	5,569
Total assets	\$ 890,318	\$ 872,354
LIABILITIES AND STOCKHOLDERS EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 64,708	\$ 65,407
Interest-bearing	609,590	593,380
Total deposits	674,298	658,787
Mortgagors and investors escrow accounts	1,696	3,591
Federal Home Loan Bank advances	114,169	116,100
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	10,002	8,166
Total liabilities	808,413	794,892

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Stockholders Equity:

Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued)		
Common stock (\$.01 par value; 75,000,000 shares authorized; 12,563,750 shares issued; 11,777,496 and 11,789,202 shares outstanding at September 30, 2010 and December 31, 2009, respectively)	126	126
Additional paid-in-capital	52,212	52,230
Unallocated common shares held by ESOP	(2,987)	(3,230)
Unearned restricted shares	(27)	(193)
Retained earnings	40,025	38,883
Accumulated other comprehensive income (loss)	595	(2,389)
Treasury stock at cost (786,254 and 774,548 shares at September 30, 2010 and December 31, 2009, respectively)	(8,039)	(7,965)
Total stockholders equity	81,905	77,462
Total liabilities and stockholders equity	\$ 890,318	\$ 872,354

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents**SI FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS***(Dollars in Thousands Except Per Share Amounts/Unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Loans, including fees	\$ 8,309	\$ 8,818	\$ 25,165	\$ 26,857
Securities:				
Taxable interest	1,522	1,864	4,844	5,912
Tax-exempt interest	7	17	36	30
Dividends	6	10	17	37
Other	32	14	81	91
Total interest and dividend income	9,876	10,723	30,143	32,927
Interest expense:				
Deposits	2,262	3,297	7,379	10,128
Federal Home Loan Bank advances	1,051	1,337	3,163	4,258
Subordinated debt	44	47	124	177
Total interest expense	3,357	4,681	10,666	14,563
Net interest income	6,519	6,042	19,477	18,364
Provision for loan losses	270	700	692	2,630
Net interest income after provision for loan losses	6,249	5,342	18,785	15,734
Noninterest income:				
Total other-than-temporary impairment losses on securities	(160)		(492)	(150)
Portion of losses recognized in other comprehensive income				
Net impairment losses recognized in earnings	(160)		(492)	(150)
Service fees	1,248	1,291	3,825	3,739
Wealth management fees	1,011	983	3,065	2,910
Increase in cash surrender value of bank-owned life insurance	73	74	216	220
Net gain (loss) on sale of securities	197	(127)	878	127
Net (loss) gain on disposal of equipment	(5)	(5)	(5)	99
Mortgage banking fees	221	181	576	519
Other	(60)	287	12	35
Total noninterest income	2,525	2,684	8,075	7,499

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Noninterest expenses:				
Salaries and employee benefits	3,684	3,777	11,895	11,979
Occupancy and equipment	1,433	1,376	4,197	4,182
Computer and electronic banking services	958	941	2,852	2,564
Outside professional services	210	235	746	704
Marketing and advertising	179	215	569	624
Supplies	112	119	377	401
FDIC deposit insurance and regulatory assessments	321	333	989	1,205
Other	777	611	2,351	1,987
Total noninterest expenses	7,674	7,607	23,976	23,646
Income (loss) before income tax provision (benefit)	1,100	419	2,884	(413)
Income tax provision (benefit)	262	41	840	(228)
Net income (loss)	\$ 838	\$ 378	\$ 2,044	\$ (185)
Net income (loss) per share:				
Basic	\$ 0.07	\$ 0.03	\$ 0.18	\$ (0.02)
Diluted	\$ 0.07	\$ 0.03	\$ 0.18	\$ (0.02)
<i>See accompanying notes to unaudited interim consolidated financial statements.</i>				

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
(Dollars in Thousands, Except Share Amounts/Unaudited)

	Common Stock		Additional Paid-in Capital	Unallocated Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
	Shares	Dollars							
Balance at December 31, 2009	12,563,750	\$ 126	\$ 52,230	\$ (3,230)	\$ (193)	\$ 38,883	\$ (2,389)	\$ (7,965)	\$ 77,462
Cumulative effect adjustment for change in accounting principle for embedded credit derivatives						(652)	652		
Comprehensive income:									
Net income						2,044			2,044
Net unrealized gains on available for sale securities, net of reclassification adjustment and tax effects							2,555		2,555
Net unrealized loss on interest-rate swap derivative							(223)		(223)
Total comprehensive income									4,376
Cash dividends declared (\$0.06 per share)						(250)			(250)
Treasury stock purchased								(74)	(74)
Equity incentive plan awards earned			75		166				241
Committed to release 24,222 ESOP shares			(93)	243					150
Balance at September 30, 2010	12,563,750	\$ 126	\$ 52,212	\$ (2,987)	\$ (27)	\$ 40,025	\$ 595	\$ (8,039)	\$ 81,905

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents**SI FINANCIAL GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(In Thousands/Unaudited)*

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 2,044	\$ (185)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	692	2,630
Employee stock ownership plan expense	150	117
Equity incentive plan expense	241	558
Amortization (accretion) of investment premiums and discounts, net	318	(129)
Amortization of loan premiums and discounts, net	513	178
Depreciation and amortization of premises and equipment	1,472	1,442
Amortization of core deposit intangible	24	32
Amortization of mortgage servicing rights	145	111
Net gain on sale of securities	(878)	(127)
Net loss on trading securities	129	
Deferred income tax benefit	(846)	(38)
Loans originated for sale	(34,812)	(47,585)
Proceeds from sale of loans held for sale	28,270	46,783
Net gain on sale of loans	(419)	(587)
Net loss (gain) on disposal of equipment	5	(99)
Net loss (gain) on sale of other real estate owned	48	(7)
Increase in cash surrender value of bank-owned life insurance	(216)	(220)
Gain on bank-owned life insurance		(291)
Impairment losses on securities	492	150
Reduction in carrying value of other real estate owned	282	
Change in operating assets and liabilities:		
Accrued interest receivable	48	250
Other assets	928	43
Accrued expenses and other liabilities	1,783	(764)
Net cash provided by operating activities	413	2,262
Cash flows from investing activities:		
Purchases of available for sale securities	(71,538)	(64,105)
Proceeds from sales of available for sale securities	40,144	13,610
Proceeds from maturities of and principal repayments on available for sale securities	44,992	45,233
Net decrease in loans	29,421	29,405
Purchases of loans receivable	(29,337)	(27,037)
Proceeds from sale of other real estate owned	2,888	1,600
Purchases of premises and equipment	(690)	(3,377)
Proceeds from bank-owned life insurance		561
Net cash paid for branch sale		(619)
Net cash provided by (used in) investing activities	15,880	(4,729)

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Cash flows from financing activities:

Net increase in deposits	15,511	36,552
Net decrease in mortgagors and investors escrow accounts	(1,895)	(1,857)
Proceeds from Federal Home Loan Bank advances	23,355	4,032
Repayments of Federal Home Loan Bank advances	(25,286)	(20,532)
Cash dividends on common stock	(250)	
Treasury stock purchased	(74)	(68)
Net cash provided by financing activities	11,361	18,127

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands/Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Net change in cash and cash equivalents	\$ 27,654	\$ 15,660
Cash and cash equivalents at beginning of period	24,204	23,203
Cash and cash equivalents at end of period	\$ 51,858	\$ 38,863
<u>Supplemental cash flow information:</u>		
Interest paid	\$ 10,672	\$ 14,653
Income taxes paid, net	204	731
Transfer of loans to other real estate owned	1,794	2,691

Branch sale:

Cash paid for the disposition of net liabilities related to the sale of the branch office located in Gales Ferry, Connecticut in January 2009 were as follows:

<i>Assets:</i>	
Loans receivable	\$ 3
Fixed assets, net	950
Other assets	96
Total assets	1,049
<i>Liabilities:</i>	
Deposits	1,668
Total liabilities	1,668
Net liabilities	\$ 619

See accompanying notes to unaudited interim consolidated financial statements.

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