

BERKSHIRE HILLS BANCORP INC
Form 10-Q
August 09, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2007

OR

**o 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 0-51584

BERKSHIRE HILLS BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

04-3510455
(I.R.S. Employer Identification No.)

24 North Street, Pittsfield, Massachusetts
(Address of principal executive offices)

01201
(Zip Code)

(413) 443-5601
(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 ý No "

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act) Yes No

The Registrant had 8,855,308 shares of common stock, par value \$0.01 per share, outstanding as of August 7, 2007.

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PART I

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

<i>(In thousands, except share data)</i>	June 30, 2007	December 31, 2006
Assets		
Total cash and cash equivalents	\$ 25,913	\$ 30,985
Securities available for sale, at fair value	184,122	194,206
Securities held to maturity, at amortized cost	39,642	39,968
Residential mortgages	618,442	599,273
Commercial mortgages	594,974	567,074
Commercial business loans	172,299	189,758
Consumer loans	344,527	342,882
Total loans	1,730,242	1,698,987
Less: Allowance for loan losses	(19,151)	(19,370)
Net loans	1,711,091	1,679,617
Premises and equipment, net	31,537	29,130
Goodwill	105,051	104,531
Other intangible assets	15,474	16,810
Cash surrender value of life insurance policies	30,836	30,338
Other assets	25,966	24,057
Total assets	\$ 2,169,632	\$ 2,149,642
Liabilities and Stockholders' Equity		
Liabilities		
Demand deposits	\$ 178,673	\$ 178,109
NOW deposits	134,978	153,087
Money market deposits	323,838	297,155
Savings deposits	195,439	202,213
Total non-maturity deposits	832,928	830,564
Brokered time deposits	29,098	41,741
Other time deposits	666,488	649,633
Total time deposits	695,586	691,374
Total deposits	1,528,514	1,521,938
Borrowings	353,083	345,005
Junior subordinated debentures	15,464	15,464
Other liabilities	6,219	9,074
Total liabilities	1,903,280	1,891,481
Stockholders' equity		
Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued)	-	-
Common stock (\$.01 par value; 26,000,000 shares authorized; 10,600,472 shares issued)	106	106

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Additional paid-in capital	202,441	200,975
Unearned compensation	(2,805)	(1,896)
Retained earnings	112,621	105,731
Accumulated other comprehensive (loss) income	(1,274)	92
Treasury stock, at cost (1,758,149 shares at June 30, 2007 and 1,887,068 at December 31, 2006)	(44,737)	(46,847)
Total stockholders' equity	266,352	258,161
Total liabilities and stockholders' equity	\$ 2,169,632	\$ 2,149,642

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Interest and dividend income				
Loans	\$ 29,152	\$ 24,017	\$ 57,674	\$ 46,373
Securities and other	2,842	4,195	5,790	8,909
Total interest and dividend income	31,994	28,212	63,464	55,282
Interest expense				
Deposits	12,318	9,843	24,267	18,599
Borrowings and junior subordinated debenture	4,638	3,911	8,969	7,617
Total interest expense	16,956	13,754	33,236	26,216
Net interest income	15,038	14,458	30,228	29,066
Non-interest income				
Insurance commissions and fees	3,786	581	8,777	1,489
Deposit service fees	1,788	1,383	3,302	2,669
Wealth management fees	968	772	1,887	1,528
Loan service fees	48	125	357	351
Total fee income	6,590	2,861	14,323	6,037
Other	303	520	726	938
Gain on sale of securities, net	-	529	81	1,026
Total non-interest income	6,893	3,910	15,130	8,001
Total net revenue	21,931	18,368	45,358	37,067
Provision for loan losses	100	600	850	890
Non-interest expense				
Salaries and employee benefits	8,230	5,758	16,741	11,411
Occupancy and equipment	2,385	1,822	4,871	3,753
Marketing, data processing, and professional services	2,116	1,595	4,063	3,225
Non-recurring expense	-	385	153	385
Amortization of intangible assets	662	478	1,324	956
Other	1,710	1,600	3,360	3,133
Total non-interest expense	15,103	11,638	30,512	22,863
Income from continuing operations before income taxes				
	6,728	6,130	13,996	13,314
Income tax expense	2,152	1,888	4,478	4,254
Net income from continuing operations	4,576	4,242	9,518	9,060
Income from discontinued operations before income taxes				
	-	359	-	359
Income tax expense	-	138	-	138
Net income from discontinued operations	-	221	-	221
Net income	\$ 4,576	\$ 4,463	\$ 9,518	\$ 9,281
Basic earnings per share				
Continuing operations	\$ 0.52	\$ 0.50	\$ 1.09	\$ 1.07
Discontinued operations	-	0.02	-	0.02
Total	\$ 0.52	\$ 0.52	\$ 1.09	\$ 1.09

Diluted earnings per share

Continuing operations	\$	0.52	\$	0.48	\$	1.07	\$	1.03
Discontinued operations		-		0.03		-		0.03
Total	\$	0.52	\$	0.51	\$	1.07	\$	1.06
Weighted average shares outstanding								
Basic		8,732		8,513		8,697		8,492
Diluted		8,875		8,760		8,855		8,758

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<i>(In thousands)</i>	Six Months Ended June 30,	
	2007	2006
Total stockholders' equity at beginning of period	\$ 258,161	\$ 246,066
Comprehensive income:		
Net income	9,518	9,281
Change in net unrealized loss on securities available-for-sale, net of reclassification adjustments and tax effects	(1,437)	(4,152)
Net gain (loss) on derivative instruments	71	(36)
Total comprehensive income	8,152	5,093
Cash dividends declared (\$0.28 per share in 2007 and \$0.42 per share in 2006)	(2,456)	(3,613)
Treasury stock purchased	(385)	(2,279)
Exercise of stock options	1,457	1,655
Reissuance of treasury stock-other	1,641	1,608
Stock-based compensation	76	120
Tax benefit from stock compensation	615	574
Change in unearned compensation	(909)	(974)
Total stockholders' equity at end of period	\$ 266,352	\$ 248,250

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 9,518	\$ 9,281
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	850	890
Depreciation, amortization, and deferrals, net	2,833	2,830
Stock-based compensation	807	756
Excess tax benefits from stock-based payment arrangements	(615)	(574)
Increase in cash surrender value of bank-owned life insurance policies	(498)	(540)
Net gains on sales of securities and loans, net	(81)	(1,026)
Net change in all other assets	(3,731)	(2,550)
Net change in other liabilities	(2,855)	1,530
Net cash provided by continuing operating activities	6,228	10,597
Net cash provided by discontinued operating activities	-	359
Net cash provided by operating activities	6,228	10,956
Cash flows from investing activities:		
Sales of securities available for sale	2,046	17,243
Proceeds from maturities, calls, and prepayments - securities available for sale	15,982	28,961
Purchases of securities available for sale	(10,169)	(14,209)
Proceeds from maturities, calls, and prepayments - securities held to maturity	5,736	7,700
Purchases of securities held to maturity	(5,411)	(20,318)
Increase in loans, net	(31,004)	(135,803)
Capital expenditures	(4,006)	(3,617)
Proceeds from sale of fixed assets	-	370
Total net cash used by investing activities	(26,826)	(119,673)
Cash flows from financing activities:		
Net increase in deposits	6,576	92,285
Proceeds from Federal Home Loan Bank ("FHLB") advances	79,325	177,014
Repayments of Federal Home Loan Bank advances	(66,247)	(161,766)
Repayment of bank note	(5,000)	-
Treasury stock purchased	(385)	(2,279)
Proceeds from reissuance of treasury stock	3,098	3,263
Excess tax benefits from stock-based payment arrangements	615	574
Cash dividends paid	(2,456)	(2,406)
Net cash provided by financing activities	15,526	106,685
Net change in cash and cash equivalents	(5,072)	(2,032)
Cash and cash equivalents at beginning of period	30,985	31,087
Cash and cash equivalents at end of period	\$ 25,913	\$ 29,055
Supplemental cash flow information:		

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Interest paid on deposits	\$	24,472	\$	18,550
Interest paid on borrowed funds		8,917		7,765
Income taxes paid, net		5,006		1,239

See accompanying notes to consolidated financial statements.

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**BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. GENERAL

Basis of Presentation and Consolidation, and Use of Estimates

The consolidated financial statements include the accounts of Berkshire Hills Bancorp, Inc. ("Berkshire" or the "Company") and its wholly-owned subsidiaries: Berkshire Bank (the "Bank") and Berkshire Insurance Group, but exclude its wholly-owned subsidiary Berkshire Hills Capital Trust I, which is accounted for using the equity method. The consolidated financial statements and notes thereto have been prepared in conformity with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated in consolidation. The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results which may be expected for the year.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are susceptible to near-term changes include the determination of the allowance for loan losses, tax related assets and liabilities, and the carrying value of goodwill and other intangible assets. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Berkshire's Annual Report on Form 10-K for the year ended December 31, 2006.

Business

Through its wholly-owned subsidiaries, the Company provides a variety of financial services to individuals, municipalities and businesses through its offices in Western Massachusetts and Northeastern New York. Its primary deposit products are checking, NOW, money market, savings, and time deposit accounts. Its primary lending products are residential mortgage, commercial mortgage, commercial business loans and consumer loans. The Company offers electronic banking, cash management, and other transaction and reporting services. The Company offers wealth management services including trust, financial planning, and investment services. The Company is the agent for complete lines of property and casualty, life, disability, and health insurance.

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Common Share

Earnings per common share have been computed based on the following (average diluted shares outstanding are calculated using the treasury stock method):

<i>(In thousands, except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income applicable to common stock	\$ 4,576	\$ 4,463	\$ 9,518	\$ 9,281
Average number of common shares outstanding	8,831	8,613	8,791	8,596
Less: average number of unvested stock award shares	(99)	(100)	(94)	(104)
Average number of basic shares outstanding	8,732	8,513	8,697	8,492
Plus: average number of unvested stock award shares	99	100	94	104
Plus: average number of dilutive shares based on stock options	44	147	64	162
Average number of diluted shares outstanding	8,875	8,760	8,855	8,758
Basic earnings per share	\$ 0.52	\$ 0.52	\$ 1.09	\$ 1.09
Diluted earnings per share	\$ 0.52	\$ 0.51	\$ 1.07	\$ 1.06

Recent Accounting PronouncementsStatements of Financial Accounting Standards ("SFAS")

SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits all entities to choose to elect to measure eligible financial instruments at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings. Eligible items include any recognized financial assets and liabilities with certain exceptions including but not limited to, deposit liabilities, investments in subsidiaries, and certain deferred compensation arrangements. The decision about whether to elect the fair value option is generally applied on an instrument -by-instrument basis, is generally irrevocable, and is applied only to an entire instrument and not to only specified risks, specific cash flows, or portions of that instrument. This Statement is effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. Management is currently analyzing the impact of making this election for any of the Company's eligible financial assets or liabilities.

Financial Accounting Standards Board ("FASB") Interpretation and Task Force Issue

FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109." The Company adopted the provisions of FIN 48 effective January 1, 2007. FIN 48 prescribes a

recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. Adoption of FIN 48 did not have a significant impact on the Company's financial statements. The Company files income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2004. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

EITF No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." In March 2007, the EITF reached a final consensus on Issue No. 06-10 ("EITF 06-10"), "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF 06-10 requires employers to recognize a liability for the post-retirement benefit related to collateral assignment split-dollar life insurance arrangements in accordance with SFAS No. 106 or APB Opinion No. 12. EITF 06-10 also requires employers to recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The provisions of EITF 06-10 are effective for the Company on January 1, 2008, with earlier application permitted, and are to be applied as a change in accounting principle either through a cumulative-effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption; or as a change in accounting principle through retrospective application to all prior periods. The Company is in the process of evaluating the potential impacts of adopting EITF 06-10 on its financial statements.

2. PENDING MERGER

On May 14, 2007, the Company entered into a definitive merger agreement with Factory Point Bancorp, Inc., the parent company of The Factory Point National Bank of Manchester Center, Vermont, pursuant to which Factory Point Bancorp will merge with and into Berkshire Hills Bancorp, with the Company being the surviving entity. Under the terms of the agreement, the stockholders of Factory Point Bancorp will be entitled to elect to receive either \$19.50 in cash or 0.5844 shares of the Company's common stock in exchange for each Factory Point Bancorp share held by them, subject to procedures to ensure that 80% of the total shares of Factory Point common stock will be exchanged for Berkshire Hills common stock and that the remainder will be exchanged for cash. The completion of the merger is subject to approval by the stockholders of both companies and customary regulatory approvals. The merger is expected to close in the third quarter or early in the fourth quarter of 2007. This merger agreement had no significant effect on the Company's financial statements for the periods presented.

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SECURITIES

A summary of securities follows:

<i>(In thousands)</i>	Amortized Cost	Fair Value
June 30, 2007		
Securities Available for Sale		
Debt securities:		
Municipal bonds and obligations	\$ 62,331	\$ 61,740
Mortgage-backed securities, other	87,905	86,392
Other bonds and obligations	13,124	13,039
Total debt securities	163,360	161,171
Equity securities:		