

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

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

FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2007

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 0-51584

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 No

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 ý

The Registrant had 10,693,048 shares of common stock, par value \$0.01 per share, outstanding as of November 8, 2007.

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**BERKSHIRE HILLS BANCORP, INC.
FORM 10-Q**

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Index**PART I****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share data)</i>	September 30, 2007	December 31, 2006
Assets		
Total cash and cash equivalents	\$ 33,882	\$ 30,985
Securities available for sale, at fair value	194,374	194,206
Securities held to maturity, at amortized cost	41,978	39,968
Residential mortgages	658,594	599,273
Commercial mortgages	694,650	567,074
Commercial business loans	203,594	189,758
Consumer loans	381,688	342,882
Total loans	1,938,526	1,698,987
Less: Allowance for loan losses	(22,108)	(19,370)
Net loans	1,916,418	1,679,617
Premises and equipment, net	38,578	29,130
Goodwill	161,296	104,531
Other intangible assets	21,876	16,810
Cash surrender value of life insurance policies	35,027	30,338
Other assets	28,633	24,057
Total assets	\$ 2,472,062	\$ 2,149,642
Liabilities and Stockholders' Equity		
Liabilities		
Demand deposits	\$ 228,731	\$ 178,109
NOW deposits	207,326	153,087
Money market deposits	388,251	297,155
Savings deposits	212,065	202,213
Total non-maturity deposits	1,036,373	830,564
Brokered time deposits	26,578	41,741
Other time deposits	733,193	649,633
Total time deposits	759,771	691,374
Total deposits	1,796,144	1,521,938
Borrowings	316,095	345,005
Junior subordinated debentures	15,464	15,464
Other liabilities	13,713	9,074
Total liabilities	2,141,416	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; 12,513,824 shares)	125	106

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issued at September 30, 2007 and 10,600,472 shares issued at December 31, 2006)

Additional paid-in capital	265,923	200,975
Unearned compensation	(2,282)	(1,896)
Retained earnings	112,252	105,731
Accumulated other comprehensive income	255	92
Treasury stock, at cost (1,785,047 shares at September 30, 2007 and 1,887,068 at December 31, 2006)	(45,627)	(46,847)
Total stockholders' equity	330,646	258,161
Total liabilities and stockholders' equity	\$ 2,472,062	\$ 2,149,642

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(In thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest and dividend income				
Loans	\$ 29,719	\$ 26,388	\$ 87,393	\$ 72,761
Securities and other	2,912	5,000	8,702	13,909
Total interest and dividend income	32,631	31,388	96,095	86,670
Interest expense				
Deposits	12,581	10,766	36,849	29,365
Borrowings and junior subordinated debentures	4,571	5,019	13,539	12,636
Total interest expense	17,152	15,785	50,388	42,001
Net interest income	15,479	15,603	45,707	44,669
Non-interest income				
Insurance commissions and fees	2,661	623	11,438	2,112
Deposit service fees	1,825	1,334	5,127	4,003
Wealth management fees	1,044	882	2,931	2,410
Loan service fees	324	209	681	560
Total fee income	5,854	3,048	20,177	9,085
Other	433	248	1,160	1,186
Loss on sale of securities, net	(672)	(5,080)	(591)	(4,054)
Loss on prepayment of borrowings, net	(1,180)	-	(1,180)	-
Loss on sale of loans, net	(1,991)	-	(1,991)	-
Total non-interest income	2,444	(1,784)	17,575	6,217
Total net revenue	17,923	13,819	63,282	50,886
Provision for loan losses	390	6,185	1,240	7,075
Non-interest expense				
Salaries and employee benefits	7,891	6,001	24,632	17,412
Occupancy and equipment	2,418	1,885	7,289	5,638
Marketing, data processing, and professional services	2,260	1,632	6,323	4,857
Non-recurring expenses	1,606	-	1,758	385
Amortization of intangible assets	684	478	2,008	1,434
Other	1,730	1,357	5,092	4,490
Total non-interest expense	16,589	11,353	47,102	34,216
Income (loss) from continuing operations before income taxes	944	(3,719)	14,940	9,595
Income tax expense (benefit)	-	(1,466)	4,478	2,788
Net income (loss) from continuing operations	944	(2,253)	10,462	6,807
Income from discontinued operations before income taxes	-	217	-	576
Income tax expense	-	84	-	222
Net income from discontinued operations	-	133	-	354
Net income (loss)	\$ 944	\$ (2,120)	\$ 10,462	\$ 7,161
Basic earnings (loss) per share				

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Continuing operations	\$ 0.11	\$ (0.26)	\$ 1.19	\$ 0.80
Discontinued operations	-	0.01	-	0.04
Total	\$ 0.11	\$ (0.25)	\$ 1.19	\$ 0.84
Diluted earnings (loss) per share				
Continuing operations	\$ 0.10	\$ (0.26)	\$ 1.17	\$ 0.78
Discontinued operations	-	0.01	-	0.04
Total	\$ 0.10	\$ (0.25)	\$ 1.17	\$ 0.82
Weighted average shares outstanding				
Basic	8,922	8,557	8,774	8,516
Diluted	9,045	8,557	8,921	8,775

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>	Nine Months Ended September	
	2007	30, 2006
Total stockholders' equity at beginning of period	\$ 258,161	\$ 246,066
Comprehensive income:		
Net income	10,462	7,161
Change in net unrealized gain on securities available-for-sale, net of reclassification adjustments and tax effects	92	3,042
Net gain (loss) on derivative instruments	71	(21)
Total comprehensive income	10,625	10,182
Factory Point Bancorp, Inc.	63,423	-
Cash dividends declared (\$0.43 per share in 2007 and \$0.42 per share in 2006)	(3,783)	(3,617)
Treasury stock purchased	(554)	(2,356)
Forfeited restricted shares	(995)	-
Exercise of stock options	1,623	2,761
Reissuance of treasury stock-other	1,722	1,608
Stock-based compensation from stock options	195	157
Tax benefit from stock compensation	615	574
Change in unearned compensation	(386)	(674)
Total stockholders' equity at end of period	\$ 330,646	\$ 254,701

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 10,462	\$ 7,161
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	1,240	7,075
Depreciation, amortization, and deferrals, net	4,754	639
Stock-based compensation	1,184	1,093
Excess tax benefits from stock-based payment arrangements	(615)	(574)
Increase in cash surrender value of bank-owned life insurance policies	(789)	(767)
Net losses on sales of securities	591	4,054
Loss on prepayment of borrowings	1,180	-
Net losses on sales of loans	1,991	-
Net change in loans held for sale	-	2,093
Net change in other assets	175	(6,192)
Net change in other liabilities	(1,015)	263
Net cash provided by continuing operating activities	19,158	14,845
Net cash provided by discontinued operating activities	-	576
Net cash provided by operating activities	19,158	15,421
Cash flows from investing activities:		
Acquisition of Factory Point Bancorp, Inc.	(7,641)	-
Sales of securities available for sale	59,141	20,671
Proceeds from maturities, calls, and prepayments - securities available for sale	25,227	41,422
Purchases of securities available for sale	(16,778)	(14,351)
Proceeds from maturities, calls, and prepayments - securities held to maturity	8,144	12,886
Purchases of securities held to maturity	(10,159)	(22,941)
Increase in loans, net	(8,534)	(214,323)
Capital expenditures	(4,449)	(4,288)
Proceeds from sale of fixed assets	-	370
Total net cash provided (used) by investing activities	44,951	(180,554)
Cash flows from financing activities:		
Net increase in deposits	5,179	116,883
Proceeds from Federal Home Loan Bank ("FHLB") advances	93,293	257,014
Repayments of FHLB advances	(167,585)	(213,251)
Proceeds from bank note	25,000	-
Repayment of bank note	(15,000)	-
Treasury stock purchased	(554)	(2,356)
Proceeds from reissuance of treasury stock	1,623	4,369
Excess tax benefits from stock-based payment arrangements	615	574
Cash dividends paid	(3,783)	(3,617)
Net cash (used) provided by financing activities	(61,212)	159,616

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Net change in cash and cash equivalents	2,897	(5,517)
Cash and cash equivalents at beginning of period	30,985	31,087
Cash and cash equivalents at end of period	\$ 33,882	\$ 25,570

Supplemental cash flow information:

Interest paid on deposits	\$ 36,416	\$ 29,343
Interest paid on borrowed funds	13,722	11,838
Income taxes paid, net	5,492	1,627

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 nine months ended September 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.

On September 21, 2007, the Company acquired all of the outstanding common stock of Factory Point Bancorp, Inc., including its principal wholly-owned subsidiary, Factory Point National Bank of Manchester Center (see Note 2). Immediately after the completion of the acquisition, Factory Point National Bank of Manchester Center was merged into the Bank.

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, Southern Vermont 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		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net income (loss) applicable to common stock	\$ 944	\$ (2,120)	\$ 10,462	\$ 7,161
Average number of common shares outstanding	9,023	8,657	8,869	8,616
Less: average number of unvested stock award shares	(101)	(100)	(95)	(100)
Average number of basic shares outstanding	8,922	8,557	8,774	8,516
Plus: average number of unvested stock award shares	101	-	95	100
Plus: average number of dilutive stock options	22	-	52	159
Average number of diluted shares outstanding	9,045	8,557	8,921	8,775
Basic earnings (loss) per share	\$ 0.11	\$ (0.25)	\$ 1.19	\$ 0.84
Diluted earnings (loss) per share	\$ 0.10	\$ (0.25)	\$ 1.17	\$ 0.82

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.

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

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. 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." 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.

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. MERGER WITH FACTORY POINT BANCORP, INC.

On September 21, 2007, the Company completed its acquisition of Factory Point Bancorp, Inc. and its subsidiary, Factory Point National Bank of Manchester Center, (collectively "Factory Point") for \$79.4 million, including the assumption of Factory Point stock options. Under the terms of the agreement, the Company issued 1,913,352 shares of the Company's common stock and paid \$16.0 million in cash in exchange for all outstanding Factory Point shares and stock options. Concurrent with the merger of Berkshire and Factory Point, the Bank and Factory Point National Bank merged with the Bank surviving. The results of operations for Factory Point are included in our results subsequent to the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as the date of acquisition. We are in the process of finalizing the purchase accounting for the acquisition; thus, the allocation of purchase price is subject to change.

<i>(In thousands)</i>	September 21, 2007
Assets	
Cash and cash equivalents	\$ 14,076
Investments	68,403
Loans, net	231,846
Premises and equipment, net	7,509
Cash surrender value of life insurance policies	3,900
Goodwill	53,385
Intangible assets	7,092
Other assets	4,521
Total assets acquired	\$ 390,732
Liabilities	
Deposits	\$ 269,027
Borrowings	34,202
Other liabilities	2,363
Total liabilities assumed	\$ 305,592
Net assets acquired	\$ 85,140

The \$7.1 million of acquired intangible assets was assigned to the core deposit premium intangible, subject to amortization. The core deposit premiums are being amortized over their estimated useful life of eight years using an accelerated method. The goodwill recognized in the acquisition of approximately \$53.4 million is not expected to be deductible for tax purposes.

The Company's cost to acquire Factory Point is as follows:

<i>(In thousands)</i>	
Cash paid to Factory Point stockholders	\$ 16,015
Common stock issued to Factory Point stockholders and stock options assumed	63,423

Total consideration	79,438
Professional fees and other acquisition costs	5,702
Net assets acquired	\$ 85,140

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pro Forma Financial Information

The unaudited pro forma financial information assumes that the Factory Point acquisition was consummated on January 1 of the periods presented. The pro forma adjustments are based on information available and certain assumptions that we believe are reasonable. Certain acquisition related adjustments are not included in the pro forma information since they were recorded after completion of the acquisition. This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of future operations that would have been achieved had the acquisition taken place at the beginning of 2006. Pro forma information is as follows:

<i>(In thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Interest income	\$ 37,558	\$ 36,648	\$ 111,533	\$ 101,557
Interest expense	19,325	18,045	57,250	47,909
Net interest income	18,233	18,603	54,283	53,648
Provision for loan losses	930	6,185	1,780	7,465
Net interest income after provision for loan losses	17,303	12,418	52,503	46,183
Non-interest income	3,217	(823)	20,123	9,028
Non-interest expense	20,780	13,833	56,528	41,553
(Loss) income before income taxes	(260)	(2,238)	16,098	13,658
Income tax (benefit) expense	(196)	(1,122)	4,786	3,752
Net (loss) income	\$ (64)	\$ (1,116)	\$ 11,312	\$ 9,906
Basic earnings (loss) per share	\$ (0.01)	\$ (0.11)	\$ 1.06	\$ 0.95
Diluted earnings (loss) per share	\$ (0.01)	\$ (0.10)	\$ 1.04	\$ 0.92

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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
September 30, 2007		
Securities Available for Sale		
Debt securities:		
U.S. Government agencies	\$ 4,656	\$ 4,657
Municipal bonds and obligations	66,522	66,586
Mortgage-backed securities, other	85,915	86,070
Other bonds and obligations	12,953	