

BERKSHIRE HILLS BANCORP INC  
Form 10-Q  
May 10, 2011

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

FORM 10-Q

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

For the quarterly period ended: March 31, 2011

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: 000-51584

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)

Registrant's telephone number, including area code: (413) 443-5601

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 (§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 the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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 16,779,110 shares of common stock, par value \$0.01 per share, outstanding as of May 2, 2011.

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## PART I

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BERKSHIRE HILLS BANCORP, INC.  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	March 31, 2011	December 31, 2010
<b>Assets</b>		
Cash and due from banks	\$30,928	\$ 24,643
Short-term investments	10,297	19,497
Total cash and cash equivalents	41,225	44,140
Trading security	15,781	16,155
Securities available for sale, at fair value	315,333	310,242
Securities held to maturity (fair values of \$57,802 and \$57,594)	56,628	56,436
Federal Home Loan Bank stock and other restricted securities	23,120	23,120
Total securities	410,862	405,953
Loans held for sale	142	1,043
Residential mortgages	655,601	644,973
Commercial mortgages	924,311	925,573
Commercial business loans	288,375	286,087
Consumer loans	277,015	285,529
Total loans	2,145,302	2,142,162
Less: Allowance for loan losses	(31,898 )	(31,898 )
Net loans	2,113,404	2,110,264
Premises and equipment, net	39,131	38,546
Other real estate owned	2,400	3,386
Goodwill	161,725	161,725
Other intangible assets	10,638	11,354
Cash surrender value of bank-owned life insurance policies	46,465	46,085
Other assets	59,122	58,220
Total assets	\$2,885,114	\$ 2,880,716
<b>Liabilities</b>		
Demand deposits	\$283,526	\$ 297,502
NOW deposits	217,776	212,143
Money market deposits	770,024	716,078
Savings deposits	229,528	237,594
Time deposits	740,195	741,124
Total deposits	2,241,049	2,204,441
Short-term debt	15,480	47,030
Long-term Federal Home Loan Bank advances	197,922	197,807
Junior subordinated debentures	15,464	15,464
Total borrowings	228,866	260,301

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Other liabilities	25,201	28,014
<b>Total liabilities</b>	<b>2,495,116</b>	<b>2,492,756</b>
<b>Stockholders' equity</b>		
Common stock (\$.01 par value; 26,000,000 shares authorized; 15,848,825 shares issued and 14,114,874 shares outstanding in 2011; 15,848,825 shares issued and 14,076,148 shares outstanding in 2010)	158	158
Additional paid-in capital	337,315	337,537
Unearned compensation	(2,561 )	(1,776 )
Retained earnings	103,720	103,285
Accumulated other comprehensive loss	(4,888 )	(6,410 )
Treasury stock, at cost (1,733,951 shares in 2011 and 1,772,677 shares in 2010)	(43,746 )	(44,834 )
Total stockholders' equity	389,998	387,960
<b>Total liabilities and stockholders' equity</b>	<b>\$2,885,114</b>	<b>\$ 2,880,716</b>

The accompanying notes are an integral part of these consolidated financial statements.

BERKSHIRE HILLS BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Three Months Ended March 31,	
	2011	2010
Interest and dividend income		
Loans	\$24,606	\$23,947
Securities and other	3,307	3,535
Total interest and dividend income	27,913	27,482
Interest expense		
Deposits	5,715	6,896
Borrowings and junior subordinated debentures	2,052	2,289
Total interest expense	7,767	9,185
Net interest income	20,146	18,297
Non-interest income		
Loan related fees	591	956
Deposit related fees	2,541	2,460
Insurance commissions and fees	3,730	3,473
Wealth management fees	1,192	1,176
Total fee income	8,054	8,065
Other	448	433
Total non-interest income	8,502	8,498
Total net revenue	28,648	26,795
Provision for loan losses	1,600	2,326
Non-interest expense		
Compensation and benefits	11,151	10,997
Occupancy and equipment	3,435	3,035
Technology and communications	1,466	1,383
Marketing and professional services	1,213	1,297
Supplies, postage and delivery	454	573
FDIC premiums and assessments	1,027	773
Other real estate owned	609	27
Amortization of intangible assets	716	768
Non-recurring expenses	1,708	21
Other	1,410	1,318
Total non-interest expense	23,189	20,192
Income before income taxes	3,859	4,277
Income tax expense	1,061	941
Net income	\$2,798	\$3,336
Basic earnings per share	\$0.20	\$0.24
Diluted earnings per share	\$0.20	\$0.24
Weighted average shares outstanding:		
Basic	13,943	13,829
Diluted	13,981	13,858

The accompanying notes are an integral part of these consolidated financial statements.



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

(In thousands)	Common stock Shares	Preferred Amount stock	Additional paid-in capital	Unearned compen- sation	Retained earnings	Accumulated other comp- rehensive (loss) income	Treasury stock	Total	
Balance at December 31, 2009	13,916	\$ 158	\$ -	\$ 338,822	\$ (1,318)	\$ 99,033	\$ (2,968 )	\$ (49,146)	\$ 384,581
Comprehensive income:									
Net income	-	-	-	-	3,336	-	-	-	3,336
Other net comprehensive loss	-	-	-	-	-	(567 )	-	-	(567 )
Total comprehensive income									2,769
Cash dividends declared (\$0.16 per share)	-	-	-	-	(2,244 )	-	-	-	(2,244 )
Restricted stock grants	123	-	-	(1,093 )	(2,036)	-	-	3,129	-
Stock-based compensation	-	-	-	2	409	-	-	-	411
Other, net	(12 )	-	-	-	-	-	-	(196 )	(196 )
Balance at March 31, 2010	14,027	158	-	337,731	(2,945)	100,125	(3,535 )	(46,213)	385,321
Balance at December 31, 2010	14,076	158	-	337,537	(1,776)	103,285	(6,410 )	(44,834)	387,960
Comprehensive income:									
Net income	-	-	-	-	2,798	-	-	-	2,798
Other net comprehensive income	-	-	-	-	-	1,522	-	-	1,522
Total comprehensive income									4,320
Cash dividends declared (\$0.16	-	-	-	-	(2,251 )	-	-	-	(2,251 )

per share)

Forfeited shares	(7 )	-	-	3	167	-	-	(170 )	-
Exercise of stock options	13	-	-	-	-	(112 )	-	326	214
Restricted stock grants	55	-	-	(226 )	(1,159)	-	-	1,385	-
Stock-based compensation	-	-	-	1	207	-	-	-	208
Other, net	(22 )	-	-	-	-	-	-	(453 )	(453 )
Balance at									
March 31, 2011	14,115	\$ 158	\$ -	\$ 337,315	\$ (2,561)	\$ 103,720	\$ (4,888)	\$ (43,746)	\$ 389,998

The accompanying notes are an integral part of these consolidated financial statements.

BERKSHIRE HILLS BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Three Months Ended March 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ 2,798	\$ 3,336
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Provision for loan losses	1,600	2,326
Net amortization of securities	340	673
Change in unamortized net loan costs and premiums	390	233
Premises and equipment depreciation and amortization expense	1,062	912
Stock-based compensation expense	208	411
Amortization of intangible assets	716	768
Income from cash surrender value of bank-owned life insurance policies	(380 )	(286 )
Net decrease in loans held for sale	901	2,272
Net change in other	1,281	3,793
Net cash provided by operating activities	8,916	14,438
<b>Cash flows from investing activities:</b>		
<b>Trading account security:</b>		
Proceeds from maturities, calls and prepayments	116	110
<b>Securities available for sale:</b>		
Sales	-	3,159
Proceeds from maturities, calls and prepayments	40,355	24,389
Purchases	(44,772 )	(17,370 )
<b>Securities held to maturity:</b>		
Proceeds from maturities, calls and prepayments	2,105	6,304
Purchases	(2,296 )	(11,494 )
Net investment in limited partnership tax credits	(4,166 )	-
Loan originations, net	(5,044 )	(25,479 )
Proceeds from sale of other real estate	382	-
Proceeds from surrender of life insurance	-	2,217
Capital expenditures	(1,647 )	(965 )
Net cash used by investing activities	(14,967 )	(19,129 )
<b>Cash flows from financing activities:</b>		
Net increase in deposits	36,608	50,531
Proceeds from Federal Home Loan Bank advances and other borrowings	15,480	44,130
Repayments of Federal Home Loan Bank advances and other borrowings	(46,915 )	(93,757 )
Net proceeds from reissuance of treasury stock	214	-
Common stock cash dividends paid	(2,251 )	(2,244 )
Net cash provided (used) by financing activities	3,136	(1,340 )
Net change in cash and cash equivalents	(2,915 )	(6,031 )
Cash and cash equivalents at beginning of period	44,140	32,608
Cash and cash equivalents at end of period	\$ 41,225	\$ 26,577

## Supplemental cash flow information:

Interest paid on deposits	5,753	6,917
Interest paid on borrowed funds	2,052	2,316
Income taxes paid, net	55	2,209
Transfers into other real estate owned	-	3,250

The accompanying notes are an integral part of these financial statements.

## 1. GENERAL

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### Basis of presentation and consolidation

The consolidated financial statements (the “financial statements”) of Berkshire Hills Bancorp, Inc. (the “Company” or “Berkshire”) have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, these financial statements, including year-end consolidated balance sheet data presented, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements and consist of normal recurring entries. These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Berkshire Insurance Group, Inc. (“BIG”) and Berkshire Bank (the “Bank”), together with the Bank’s consolidated subsidiaries. One of the Bank’s consolidated subsidiaries is Berkshire Bank Municipal Bank, a New York chartered limited-purpose commercial bank. All significant inter-company transactions have been eliminated in consolidation. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results which may be expected for the year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

### Business

Through its wholly-owned subsidiaries, the Company provides a variety of financial services to individuals, businesses, not-for-profit organizations, and municipalities through its offices in western Massachusetts, southern Vermont and northeastern and central New York. The Company also provides asset-based middle-market commercial lending throughout New England and its New York markets. Its primary deposit products are checking, NOW, money market, savings, and time deposit accounts. Its primary lending products are residential mortgages, commercial mortgages, commercial business loans and consumer loans. The Company offers electronic banking, cash management, other transaction and reporting services and interest rate swap contracts to commercial customers. The Company offers wealth management services including trust, financial planning, and investment services. The Company is also an agent for complete lines of property and casualty, life, disability, and health insurance.

### Business segments

An operating segment is a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. The Company has two reportable operating segments, Banking and Insurance, which are delineated by the consolidated subsidiaries of Berkshire Hills Bancorp, Inc. Banking includes the activities of the Bank and its subsidiaries, which provide commercial and consumer banking services. Insurance includes the activities of BIG and its subsidiaries, which provides commercial and consumer insurance services. The only other consolidated financial activity of the Company consists of the transactions of its parent, Berkshire Hills Bancorp, Inc.

### Use of estimates

In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the estimates related to the initial

measurement of goodwill and intangible assets and subsequent impairment analyses; the determination of other-than-temporary impairment of securities; and the determination of fair value of financial instruments and subsequent impairment analysis.

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### Significant accounting policies

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements in the 2010 Form 10-K. The allowance for loan loss policy has since been refined and is described below:

#### Allowance for Loan Losses

The allowance for loan losses represents our estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. We establish the amount of the allowance for loan losses by analyzing the quality of the loan portfolio at least quarterly, and more often if deemed necessary.

We estimate the appropriate level of our allowance for loan losses by applying historical and industry loss rates to existing loans with similar risk characteristics. The loss rates used to establish the allowance are adjusted to reflect our current assessment of many factors, including:

- State and local economic and business conditions;
- Trends in past due and concentration of portfolio risk;
- Experience, ability and depth of our lending management and staff;
- Risk selection, lending policies and underwriting standards
- Trends in portfolio mix, growth/concentration and types of products offered;
- Banking industry conditions and other external factors.

For all TDR's, regardless of size as well as, impaired loans having an outstanding balance greater than \$150 thousand, we conduct further analysis to determine the probable amount of loss and assign a specific allowance to the loan, if deemed appropriate. We estimate the extent of impairment by comparing the carrying amount of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral or the loan's observable market price. We may assign a specific allowance — even when sources of repayment appear sufficient — if we remain uncertain about whether the loan will be repaid in full.

In the first quarter of 2011, management made refinements to its allowance for loan loss methodology to better incorporate the Company's internal risk ratings into a formula-based approach. This refinement did not have a significant effect on the first quarter loan loss provision or the total allowance for loan loss.

The Company evaluates certain loans individually for specific impairment. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification, or non-accrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of the probable loss is able to be estimated. Estimates of loss may be determined by the present value of anticipated future cash flows or the loan's observable fair market value, or the fair value of the collateral, if the loan is collateral dependent. However, for collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible.

Large groups of small-balance homogeneous loans such as the residential mortgage, home equity and other consumer portfolios are collectively evaluated for impairment. As such, the Company does not typically identify individual loans within these groupings as impaired loans or for impairment evaluation and disclosure. The Company evaluates all TDRs for impairment on an individual loan basis regardless of loan type.

In the first quarter of 2011, management made refinements to its allowance for loan loss methodology to better incorporate the Company's internal risk ratings into its formula-based approach. This refinement did not have a significant effect on the first quarter loan loss provision or the total allowance for loan loss.

#### 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):

(In thousands, except per share data)	Three Months Ended March 31,	
	2011	2010
Net income	\$2,798	\$3,336
Average number of shares outstanding	14,105	13,989
Less: average number of unvested stock award shares	(162 )	(160 )
Average number of basic shares outstanding	13,943	13,829
Plus: average number of dilutive unvested stock award shares	34	16
Plus: average number of dilutive stock options	4	13
Average number of diluted shares outstanding	13,981	13,858
Basic earnings per share	\$0.20	\$0.24
Diluted earnings per share	\$0.20	\$0.24

For the quarter ended March 31, 2011, 129 thousand shares of restricted stock and 141 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations. For the quarter ended March 31, 2010, 144 thousand shares of restricted stock and 257 thousand options were anti-dilutive and therefore excluded from the earnings per share calculations.



Recent accounting pronouncements

FASB ASU No. 2010-20, "Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses". In July 2010, the FASB issued ASU 2010-20 which requires an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's loan portfolio (2) how that risk is analyzed and assessed in arriving at the allowance for loan and lease losses and (3) the changes and reasons for those changes in the allowance for loan and lease losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance resulted in significant additional loan disclosures included in Note 4.

FASB ASU No. 2010-29, "Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations". In December 2010, the FASB issued ASU 2010-29 which clarifies the presentation of pro forma information required for business combinations when a public company presents comparative financial information. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this guidance will require additional disclosures.

FASB ASU No. 2011-02, "A Creditor's Determination of Whether Restructuring Is a Troubled Debt Restructuring". In April 2011, the FASB issued ASU 2011-02 which clarifies when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and is to be applied retrospectively to modifications occurring on or after the beginning of the annual period of adoption. The adoption of this guidance could result in additional loans being classified as troubled debt restructurings and will require additional loan disclosures.

## 2. TRADING ACCOUNT SECURITY

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The Company holds a tax advantaged economic development bond that is being accounted for at fair value. The security had an amortized cost of \$14.4 million and \$14.6 million and a fair value of \$15.8 million and \$16.2 million at March 31, 2011 and December 31, 2010, respectively. As discussed further in Note 9-Derivative Financial Instruments and Hedging Activities, the Company has entered into a swap contract to swap-out the fixed rate of the security in exchange for a variable rate. The Company does not purchase securities with the intent of selling them in the near term, and there are no other securities in the trading portfolio at March 31, 2011.

## 3. SECURITIES AVAILABLE FOR SALE AND HELD TO MATURITY

The following is a summary of securities available for sale and held to maturity:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2011</b>				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	\$76,489	\$1,451	\$(177 )	\$77,763
Government guaranteed residential mortgage-backed securities	18,987	233	(10 )	19,210
Government-sponsored residential mortgage-backed securities	164,627	2,494	(602 )	166,519
Corporate bonds	9,004	25	(85 )	8,944
Trust preferred securities	22,192	678	(2,260 )	20,610
Other bonds and obligations	386	2	-	388
Total debt securities	291,685	4,883	(3,134 )	293,434
Equity securities:				
Marketable equity securities	18,662	3,237	-	21,899
Total securities available for sale	310,347	8,120	(3,134 )	315,333
Securities held to maturity				
Municipal bonds and obligations	7,498	-	-	7,498
Government-sponsored residential mortgage-backed securities	82	4	-	86
Tax advantaged economic development bonds	48,625	1,170	-	49,795
Other bonds and obligations	423	-	-	423
Total securities held to maturity	56,628	1,174	-	57,802
Total	\$366,975	\$9,294	\$(3,134 )	\$373,135
<b>December 31, 2010</b>				
Securities available for sale				
Debt securities:				
Municipal bonds and obligations	\$79,292	\$1,008	\$(394 )	\$79,906
Government guaranteed residential mortgage-backed securities	25,801	370	(7 )	26,164
Government-sponsored residential mortgage-backed securities	144,493	2,806	(580 )	146,719
Corporate bonds	18,307	73	(90 )	18,290
Trust preferred securities	22,222	316	(2,683 )	19,855
Other bonds and obligations	402	2	(1 )	403
Total debt securities	290,517	4,575	(3,755 )	291,337
Equity securities:				
Marketable equity securities	15,756	3,217	(68 )	18,905
Total securities available for sale	306,273	7,792	(3,823 )	310,242

Securities held to maturity				
Municipal bonds and obligations	7,069	-	-	7,069
Government-sponsored residential mortgage-backed securities	83	3	-	86
Tax advantaged economic development bonds	48,861	1,155	-	50,016
Other bonds and obligations	423	-	-	423
Total securities held to maturity	56,436	1,158	-	57,594