

BERKSHIRE HILLS BANCORP INC
Form 10-Q
May 10, 2007

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

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FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 [X] 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

The Registrant had 8,828,406 shares of common stock, par value \$0.01 per share, outstanding as of May 6, 2007.

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

<i>(In thousands, except share data)</i>	March 31, 2007	December 31, 2006
Assets		
Total cash and cash equivalents	\$ 27,567	\$ 30,985
Securities available for sale, at fair value	191,454	194,206
Securities held to maturity, at amortized cost	38,152	39,968
Residential mortgages	608,004	599,273
Commercial mortgages	590,362	567,074
Commercial business loans	188,256	189,758
Consumer loans	343,438	342,882
Total loans	1,730,060	1,698,987
Less: Allowance for loan losses	(19,652)	(19,370)
Net loans	1,710,408	1,679,617
Premises and equipment, net	30,576	29,130
Goodwill	104,923	104,531
Other intangible assets	16,142	16,810
Cash surrender value of life insurance policies	30,579	30,338
Other assets	24,772	24,057
Total assets	\$ 2,174,573	\$ 2,149,642
Liabilities and Stockholders' Equity		
Liabilities		
Demand deposits	\$ 174,887	\$ 178,109
NOW deposits	146,679	153,087
Money market deposits	311,365	297,155
Savings deposits	198,262	202,213
Total non-maturity deposits	831,193	830,564
Brokered time deposits	29,186	41,741
Other time deposits	675,233	649,633
Total time deposits	704,419	691,374
Total deposits	1,535,612	1,521,938
Borrowings	351,638	345,005
Junior subordinated debentures	15,464	15,464
Other liabilities	8,772	9,074
Total liabilities	1,911,486	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	201,542	200,975
Unearned compensation	(2,724)	(1,896)
Retained earnings	109,275	105,731
Accumulated other comprehensive income	249	92
Treasury stock, at cost (1,793,427 shares at March 31, 2007 and 1,887,068 at December 31, 2006)	(45,361)	(46,847)
Total stockholders' equity	263,087	258,161
Total liabilities and stockholders' equity	\$ 2,174,573	\$ 2,149,642

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
<i>(In thousands, except per share data)</i>	2007	2006
Interest and dividend income		
Loans	\$ 28,522	\$ 22,356
Securities and other	2,948	4,714
Total interest and dividend income	31,470	27,070
Interest expense		
Deposits	11,949	8,756
Borrowings and junior subordinated debenture	4,331	3,706
Total interest expense	16,280	12,462
Net interest income	15,190	14,608
Non-interest income		
Insurance commissions and fees	4,991	908
Deposit service fees	1,514	1,286
Wealth management fees	919	756
Loan service fees	309	226
Total fee income	7,733	3,176
Gain on sale of securities, net	81	497
Other	423	418
Total non-interest income	8,237	4,091
Total net revenue	23,427	18,699
Provision for loan losses	750	290
Non-interest expense		
Salaries and employee benefits	8,511	5,653
Occupancy and equipment	2,486	1,931
Marketing, data processing, and professional services	1,947	1,630
Non-recurring expense	153	-
Amortization of intangible assets	662	478
Other	1,650	1,533
Total non-interest expense	15,409	11,225
Income before income taxes	7,268	7,184
Income tax expense	2,326	2,366
Net income	\$ 4,942	\$ 4,818
Basic earnings per share	\$ 0.57	\$ 0.57
Diluted earnings per share	\$ 0.56	\$ 0.55
Average shares outstanding		
Basic	8,662	8,476
Diluted	8,842	8,755

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>	Three Months Ended March	
	2007	31, 2006
Total stockholders' equity at beginning of period	\$ 258,161	\$ 246,066
Comprehensive income:		
Net income	4,942	4,818
Change in net unrealized gain (loss) on securities available-for-sale, net of reclassification adjustments and tax effects	154	(2,093)
Net gain (loss) on derivative instruments	3	(24)
Total comprehensive income	5,099	2,701
Cash dividends declared (\$0.14 per share)	(1,220)	(1,203)
Treasury stock purchased	(378)	(2,140)
Exercise of stock options	1,078	1,221
Reissuance of treasury stock-other	979	1,608
Stock-based compensation	196	84
Tax benefit from stock compensation	-	574
Change in unearned compensation	(828)	(1,274)
Total stockholders' equity at end of period	\$ 263,087	\$ 247,637

See accompanying notes to consolidated financial statements.

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BERKSHIRE HILLS BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Three Months Ended March	
	2007	31, 2006
Cash flows from operating activities:		
Net income	\$ 4,942	\$ 4,818
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	750	290
Depreciation, amortization, and deferrals, net	1,361	497
Stock-based compensation	346	421
Excess tax benefits from stock-based payment arrangements	0	(574)
Increase in cash surrender value of bank-owned life insurance policies	(241)	(293)
Net gains on sales of securities and loans, net	(81)	(497)
Deferred income tax (benefit) provision, net	(4)	490
Net change in loans held for sale	-	826
Net change in all other assets	(1,602)	(501)
Net change in other liabilities	(302)	1,061
Net cash provided by operating activities	5,169	6,538
Cash flows from investing activities:		
Sales of securities available for sale	2,046	1,027
Payments on securities available for sale	11,383	13,491
Purchases of securities available for sale	(10,019)	(11,315)
Payments on securities held to maturity	2,977	5,362
Purchases of securities held to maturity	(1,161)	(4,301)
Increase in loans, net	(31,366)	(32,257)
Capital expenditures	(2,234)	700
Total net cash used by investing activities	(28,374)	(27,293)
Cash flows from financing activities:		
Net increase in deposits	13,674	79,336
Proceeds from Federal Home Loan Bank advances	74,325	20,000
Repayments of Federal Home Loan Bank advances	(62,692)	(81,188)
Repayment of bank note	(5,000)	
Treasury stock purchased	(378)	(2,140)
Proceeds from reissuance of treasury stock	1,078	2,067
Excess tax benefits from stock-based payment arrangements	-	574
Cash dividends paid	(1,220)	(1,203)
Net cash provided by financing activities	19,787	17,446
Net change in cash and cash equivalents	(3,418)	(3,309)
Cash and cash equivalents at beginning of period	30,985	31,087
Cash and cash equivalents at end of period	\$ 27,567	\$ 27,778
Supplemental cash flow information:		
Interest paid on deposits	\$ 11,994	\$ 8,699
Interest paid on borrowed funds	4,319	3,852

Income taxes paid, net	871	(77)
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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 three months ended March 31, 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 March 31,	
	2007	2006
Net income applicable to common stock	\$ 4,942	\$ 4,818
Average number of common shares outstanding	8,752	8,578
Adjustment for average unallocated SERP and ESOP shares	-	6
Less: average number of unvested stock award shares	(90)	(108)
Average number of basic shares outstanding	8,662	8,476
Plus: average number of unvested stock award shares	90	108
Plus: average number of dilutive shares based on stock options	90	171
Average number of diluted shares outstanding	8,842	8,755
Basic earnings per share	\$ 0.57	\$ 0.57
Diluted earnings per share	\$ 0.56	\$ 0.55

Recent Accounting Pronouncements**Statements of Financial Accounting Standards ("SFAS")**

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140." SFAS 155 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. Adoption of SFAS 155 on January 1, 2007 did not have a significant impact on the Company's financial statements.

SFAS No. 156, "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140." SFAS 156 amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB Statement No. 125," by requiring, in certain situations, an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. All separately recognized servicing assets and servicing liabilities are required to be initially measured at fair value. Subsequent measurement methods include the amortization method, whereby servicing assets or servicing

liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss or the fair value method, whereby servicing assets or servicing liabilities are measured at fair value at each reporting date, and changes in fair value are reported in earnings in the period in which they occur. If the amortization method is used, an entity must assess servicing assets or servicing liabilities for impairment or increased obligation based on the fair value at each reporting date. Adoption of SFAS 156 on January 1, 2007 did not have a significant impact on the Company's financial statements.

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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.

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SECURITIES

A summary of securities follows:

<i>(In thousands)</i>	Amortized Cost	Fair Value
March 31, 2007		
Securities Available for Sale		
Debt securities:		
Municipal bonds and obligations	\$ 62,730	\$ 63,465
Mortgage-backed securities, other	91,431	90,956
Other bonds and obligations	14,207	14,218
Total debt securities	168,368	168,639
Equity securities:		
Federal Home Loan Bank stock	19,720	19,720
Other equity securities	2,551	3,095
Total equity securities	22,271	22,815
Total securities available for sale	190,639	191,454
Securities Held to Maturity		
Municipal bonds and obligations	34,119	33,581
Mortgage-backed securities	4,033	3,953
Total securities held to maturity	38,152	37,534
Total securities	\$ 228,791	\$ 228,988
<i>(In thousands)</i>	Amortized Cost	Fair Value
December 31, 2006		
Securities Available for Sale		
Debt securities:		
Municipal bonds and obligations	\$ 63,788	\$ 64,503
Mortgage-backed securities	85,102	84,334
Other bonds and obligations	20,392	20,439
Total debt securities	169,282	169,276
Equity securities:		
Federal Home Loan Bank stock	21,766	21,766
Other equity securities	2,921	3,164
Total equity securities	24,687	24,930
Total securities available for sale	193,969	194,206
Securities Held to Maturity		
Municipal bonds and obligations	35,572	35,286
Mortgage-backed securities	4,396	4,400
Total securities held to maturity	39,968	39,686
Total securities	\$ 233,937	\$ 233,892

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BERKSHIRE HILLS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. LOANS

Loans consisted of the following:

<i>(Dollars in millions)</i>	March 31, 2007 Balance	December 31, 2006 Balance
Residential mortgages:		
1 - 4 Family	\$ 574	\$ 567
Construction	34	32
Total residential mortgages	608	599
Commercial mortgages:		
Construction	132	130
Single and multi-family	66	65
Other commercial mortgages	392	372
Total commercial mortgages	590	567
Commercial business loans	189	190
Total commercial loans	779	757