

SI Financial Group, Inc.
Form 10-Q
August 12, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

OR

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

For the Transition Period from _____ to _____

Commission File Number: 0-50801

SI FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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United States (State or other jurisdiction of incorporation or organization)	84-1655232 (I.R.S. Employer Identification No.)
803 Main Street, Willimantic, Connecticut (Address of principal executive offices)	06226 (Zip Code)
(860) 423-4581 (Registrant's telephone number, including area code)	
Not Applicable (Former name, former address and former fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of August 6, 2010, there were 11,777,496 shares of the registrant's common stock outstanding.

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

	June 30, 2010	December 31, 2009
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	\$ 13,332	\$ 12,889
Interest-bearing	4,811	2,350
Federal funds sold	27,950	8,965
Total cash and cash equivalents	46,093	24,204
Available for sale securities, at fair value	182,210	183,562
Loans held for sale	1,835	396
Loans receivable (net of allowance for loan losses of \$4,878 at June 30, 2010 and \$4,891 at December 31, 2009)	606,514	607,692
Federal Home Loan Bank stock, at cost	8,388	8,388
Bank-owned life insurance	8,877	8,734
Premises and equipment, net	12,418	12,966
Goodwill and other intangibles	4,179	4,195
Accrued interest receivable	3,333	3,341
Deferred tax asset, net	4,778	6,078
Other real estate owned	1,745	3,680
Prepaid FDIC deposit insurance assessment	3,056	3,549
Other assets	6,009	5,569
Total assets	\$ 889,435	\$ 872,354

LIABILITIES AND STOCKHOLDERS EQUITY:**Liabilities:**

Deposits:		
Noninterest-bearing	\$ 68,259	\$ 65,407
Interest-bearing	606,184	593,380
Total deposits	674,443	658,787
Mortgagors and investors escrow accounts	2,338	3,591
Federal Home Loan Bank advances	114,169	116,100
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	9,077	8,166
Total liabilities	808,275	794,892

Stockholders Equity:

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Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued)		
Common stock (\$.01 par value; 75,000,000 shares authorized; 12,563,750 shares issued; 11,777,496 and 11,789,202 shares outstanding at June 30, 2010 and December 31, 2009, respectively)	126	126
Additional paid-in-capital	52,226	52,230
Unallocated common shares held by ESOP	(3,068)	(3,230)
Unearned restricted shares	(29)	(193)
Retained earnings	39,964	38,883
Accumulated other comprehensive loss	(20)	(2,389)
Treasury stock at cost (786,254 and 774,548 shares at June 30, 2010 and December 31, 2009, respectively)	(8,039)	(7,965)
Total stockholders equity	81,160	77,462
Total liabilities and stockholders equity	\$ 889,435	\$ 872,354

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Loans, including fees	\$ 8,445	\$ 9,105	\$ 16,856	\$ 18,039
Securities:				
Taxable interest	1,567	2,023	3,322	4,048
Tax-exempt interest	14	10	29	13
Dividends	6	13	11	27
Other	26	25	49	77
Total interest and dividend income	10,058	11,176	20,267	22,204
Interest expense:				
Deposits	2,453	3,377	5,117	6,831
Federal Home Loan Bank advances	1,036	1,440	2,112	2,921
Subordinated debt	41	59	80	130
Total interest expense	3,530	4,876	7,309	9,882
Net interest income	6,528	6,300	12,958	12,322
Provision for loan losses	252	1,440	422	1,930
Net interest income after provision for loan losses	6,276	4,860	12,536	10,392
Noninterest income:				
Total other-than-temporary impairment losses on securities	(194)		(365)	(150)
Portion of losses recognized in other comprehensive income	33		33	
Net impairment losses recognized in earnings	(161)		(332)	(150)
Service fees	1,318	1,257	2,577	2,448
Wealth management fees	1,035	969	2,054	1,927
Increase in cash surrender value of bank-owned life insurance	72	73	143	146
Net gain on sale of securities	414	117	681	254
Net gain on disposal of equipment				104
Mortgage banking fees	225	199	355	338
Other	34	56	72	(252)
Total noninterest income	2,937	2,671	5,550	4,815
Noninterest expenses:				
Salaries and employee benefits	4,070	4,248	8,211	8,202
Occupancy and equipment	1,343	1,351	2,764	2,806
Computer and electronic banking services	953	832	1,894	1,623

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Outside professional services	287	249	536	469
Marketing and advertising	208	201	390	409
Supplies	124	131	265	282
FDIC deposit insurance and regulatory assessments	329	690	668	872
Other	851	743	1,574	1,376
Total noninterest expenses	8,165	8,445	16,302	16,039
Income (loss) before income tax provision (benefit)	1,048	(914)	1,784	(832)
Income tax provision (benefit)	335	(295)	578	(269)
Net income (loss)	\$ 713	\$ (619)	\$ 1,206	\$ (563)
Net income (loss) per share:				
Basic	\$ 0.06	\$ (0.05)	\$ 0.11	\$ (0.05)
Diluted	\$ 0.06	\$ (0.05)	\$ 0.11	\$ (0.05)

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2010

(Dollars in Thousands, Except Share Amounts/Unaudited)

	Common Shares	Stock Dollars	Additional Paid-in Capital	Unallocated Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2009	12,563,750	\$ 126	\$ 52,230	\$ (3,230)	\$ (193)	\$ 38,883	\$ (2,389)	\$ (7,965)	\$ 77,462
Comprehensive income:									
Net income						1,206			1,206
Net unrealized gains on available for sale securities, net of reclassification adjustment and tax effects							2,369		2,369
Total comprehensive income									3,575
Cash dividends declared (\$0.03 per share)						(125)			(125)
Treasury stock purchased								(74)	(74)
Equity incentive plan shares earned			62		164				226
Committed to release 16,148 ESOP shares			(66)	162					96
Balance at June 30, 2010	12,563,750	\$ 126	\$ 52,226	\$ (3,068)	\$ (29)	\$ 39,964	\$ (20)	\$ (8,039)	\$ 81,160

See accompanying notes to unaudited interim consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 1,206	\$ (563)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	422	1,930
Employee stock ownership plan expense	96	81
Equity incentive plan expense	226	376
Amortization (accretion) of investment premiums and discounts, net	223	(112)
Amortization of loan premiums and discounts, net	311	113
Depreciation and amortization of premises and equipment	965	960
Amortization of core deposit intangible	16	21
Amortization of mortgage servicing rights	93	69
Net gain on sale of securities	(681)	(254)
Deferred income tax provision	80	6
Loans originated for sale	(21,449)	(28,830)
Proceeds from sale of loans held for sale	20,061	27,203
Net gain on sale of loans	(240)	(382)
Net gain on disposal of equipment		(104)
Net loss on sale of other real estate owned	42	
Increase in cash surrender value of bank-owned life insurance	(143)	(146)
Impairment losses on securities	332	150
Reduction in carrying value of other real estate owned	242	
Change in operating assets and liabilities:		
Accrued interest receivable	8	212
Other assets	(21)	556
Accrued expenses and other liabilities	1,081	(482)
Net cash provided by operating activities	2,870	804
Cash flows from investing activities:		
Purchases of available for sale securities	(58,460)	(37,573)
Proceeds from sales of available for sale securities	33,801	9,558
Proceeds from maturities of and principal repayments on available for sale securities	29,726	29,184
Net decrease in loans	18,791	9,290
Purchases of loans receivable	(19,589)	(21,806)
Proceeds from sale of other real estate owned	2,894	
Purchases of premises and equipment	(417)	(3,145)
Net cash paid for branch sale		(619)
Net cash provided by (used in) investing activities	6,746	(15,111)
Cash flows from financing activities:		
Net increase in deposits	15,656	30,020
Net (decrease) increase in mortgagors and investors escrow accounts	(1,253)	124
Proceeds from Federal Home Loan Bank advances	23,355	4,032
Repayments of Federal Home Loan Bank advances	(25,286)	(15,032)

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Cash dividends on common stock	(125)	
Treasury stock purchased	(74)	(68)
Other, net		(3)
Net cash provided by financing activities	12,273	19,073

(continued on next page)

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SI FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands/Unaudited)

	Six Months Ended June 30,	
	2010	2009
Net change in cash and cash equivalents	21,889	4,766
Cash and cash equivalents at beginning of period	24,204	23,203
Cash and cash equivalents at end of period	\$ 46,093	\$ 27,969
<u>Supplemental cash flow information:</u>		
Interest paid	\$ 7,332	\$ 9,945
Income taxes paid, net	1	731
Transfer of loans to other real estate owned	1,243	418
<u>Branch sale:</u>		
Cash paid for the disposition of net liabilities related to the sale of the branch office located in Gales Ferry, Connecticut in January 2009 were as follows:		
<i>Assets:</i>		
Loans receivable	\$	3
Fixed assets, net		950
Other assets		96
Total assets		1,049
<i>Liabilities:</i>		
Deposits		1,668
Total liabilities		1,668
Net liabilities	\$	619

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009 AND DECEMBER 31, 2009

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

SI Financial Group, Inc. (the Company) is the holding company for Savings Institute Bank and Trust Company (the Bank). Established in 1842, the Bank is a community-oriented financial institution headquartered in Willimantic, Connecticut. The Bank provides a variety of financial services to individuals, businesses and municipalities through its twenty-one offices in eastern Connecticut. Its primary products include savings, checking and certificate of deposit accounts, residential and commercial mortgage loans, commercial business loans and consumer loans. In addition, wealth management services, which include trust, financial planning, life insurance and investment services, are offered to individuals and businesses through the Bank's Connecticut offices. SI Trust Servicing, the third-party provider of trust outsourcing services for community banks, expands the wealth management products offered by the Bank, and offers trust services to other community banks. The Company does not conduct any material business other than owning all of the stock of the Bank and making payments on its subordinated debentures it holds.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries, 803 Financial Corp., SI Mortgage Company and SI Realty Company, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Financial Statement Presentation

The interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X of the Securities and Exchange Commission (SEC) and general practices within the banking industry. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been omitted. Information in the accompanying interim consolidated financial statements and notes to the financial statements of the Company as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited. These unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited financial statements of the Company and the accompanying notes for the year ended December 31, 2009 contained in the Company's Form 10-K.

Interim financial statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2010. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial condition, results of operations and cash flows as of and for the period covered herein. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the operating results for the year ending December 31, 2010.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheets and reported amounts of revenues and expenses for the periods presented. 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, other-than-temporary impairment (OTTI) of securities, deferred income taxes and the impairment of long-lived assets.

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SI FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010 AND 2009 AND DECEMBER 31, 2009

Reclassifications

Certain amounts in the Company's 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. Income statement amounts totaling \$237,000 and \$561,000 of net deferred loan origination fees and costs were reclassified from salaries and benefits expense to loan interest and fee income and mortgage banking fees for the three and six months ended June 30, 2009, respectively. Such reclassifications had no effect on net income.

Recent Accounting Pronouncements

Transfers of Financial Assets In June 2009, the Financial Accounting Standards Board (FASB) issued new requirements related to the accounting for transfers of financial assets, including securitization transactions. These requirements: (1) eliminate the concept of a qualifying special-purpose entity, (2) change the requirements for derecognizing financial assets and (3) require additional disclosures to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. These requirements were effective for a reporting entity's first annual reporting period that begins after November 15, 2009. Transfers of financial assets occurring on or after the effective date are subject to the new requirements. The Company adopted these new requirements effective January 1, 2010, which did not have a material impact on the Company's consolidated financial statements.

Fair Value Measurement Disclosures In January 2010, the FASB amended its standards related to the disclosure of fair value measurements to require: (1) separate disclosure of significant amounts transferred in and out of Levels 1 and 2 fair value measurement categories, (2) a reconciliation of activity in the Level 3 fair value measurement category to present separately information relating to purchases, sales, issuances and settlements, (3) greater disaggregation of the assets and liabilities for which fair value measurements are presented and (4) expanded disclosure of the valuation techniques and inputs used to measure assets and liabilities in Levels 2 and 3 fair value measurement categories. The Company adopted these amendments effective